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Supreme Court of the United States

OCTOBER TERM, 1946

No. 91

E. I. DU PONT DE NEMOURS AND COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

APPEAL FROM THE DISTRICT COURT OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK

APPELLANT'S BRIEF

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OPINION BELOW

The opinion of the District Court (R. 185)[1] is reported at 63 F. Supp. 513. Its final decree (R. 307) is reported at 63 F. Supp. 532.

JURISDICTION

The final decree of the District Court was entered October 11, 1945 (R. 316). This appeal was allowed by the District Court December 10, 1945 (R. 350).

[1]The record in the present case consists of two volumes containing the proceedings below which run from pages 1 through 1289 and four volumes of exhibits which run from pages 1 through 4399. "R." references are to the volumes containing the proceedings below and "Ex. R." references are to the volumes of exhibits.

Jurisdiction is conferred on this Court by Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823, 36 Stat. 1167; 15 U. S. C. Sec. 29), and Section 238 of the Judicial Code, as amended (36 Stat. 1156, 38 Stat. 804, 43 Stat. 938; 28 U. S. C. Sec. 345). Probable jurisdiction was noted May 20, 1946 (R. 1289).

STATEMENT OF THE CASE

Proceedings Below. The Department of Justice commenced this suit June 24, 1944 (R. 1), pursuant to Section 4 of the Sherman Act (Act of July 2, 1890, c. 647, 26 Stat. 209, 15 U. S. C. Sec. 1 *et seq.*), to enjoin the operation of an international cartel in the titanium pigment industry claimed to be in violation of the anti-trust laws. Trial before Rifkind, *J.*, in the Southern District of New York, began December 4, 1944, and ended March 14, 1945 (R. 361-1175). Thereafter the parties filed proposed findings of fact and conclusions of law (R. 78, 119, 171). On July 5, 1945, the District Court filed its opinion (R. 185), and on October 2, 1945, its findings of fact and conclusions of law (R. 233). It held that a combination and conspiracy existed in the titanium pigment industry in violation of Section 1 of the Sherman Act (R. 306, 308), and entered a decree accordingly (R. 307).

The Appeals. The government and each of the three defendants below has appealed to this Court (R. 329, 334, 344). The government's appeal, No. 89, complains solely of the scope of relief granted by the District Court's decree (R. 330-331). The joint appeal, No. 90, of National Lead and Titan, Inc., which are affiliated companies, has been limited by their brief to questions relating to the scope of

relief (*cf.* R. 336-343). Du Pont's appeal, No. 91, complains as to the merits of the District Court's findings, as well as to the scope of relief (R. 344-350). All testimony and exhibits presented to the District Court are contained in the consolidated record before this Court (R. 356-359, 360).

The Decree and Partial Stay Pending Appeal. On October 11, 1945, the District Court entered a decree which in addition to cancelling the various contracts found to be illegal, subjects both existing and certain future patents and technical information of both du Pont and National Lead to compulsory licensing at reasonable royalties (R. 307). The decree also contains customary injunctive provisions. On application by National Lead, Mr. Justice Reed entered a partial stay on January 2, 1946. Paragraphs 5 (except as to an agreement between du Pont and National Lead dated January 1, 1933, as amended January 1, 1941, which we shall consider in detail, *infra*), 8, 9, 10 and 11 of the decree were stayed. These relate principally to National Lead.

Industry's Basic Product and Its Characteristics. The case concerns a type of white pigment known as titanium pigments containing titanium oxide, a chemical compound, as an essential ingredient. Neither the nature nor purpose of such pigments is in dispute. The District Court found (FF 33, R. 245):—

> "Titanium pigments and compounds are manufactured from titanium which is the ninth most abundant element on the earth's surface. Titanium is contained in ilmenite and other minerals. Sands and rock formations containing ilmenite are found in India, the United States, Norway, Brazil, and elsewhere throughout the world. Titanium pig-

ments are possessed of great opacity, hiding power and chemical inertness; and are largely displacing other pigments such as lithopone and white lead. Titanium pigments are used in the manufacture of paints and are also used in the manufacture of rubber, glass, paper, vitreous enamels, and many other products. Titanium pigments are sold in the United States and abroad in competition with other forms of white pigments, notably lithopone and white lead, which are sold in the United States in substantial quantities by a number of commercial concerns other than the defendants and some of which are sold by the defendants".

The raw materials for the manufacture of titanium pigments, principally ilmenite which is a mineral sand, are not the subject of this case. The District Court found that (FF 94, R. 303):

> "It is not claimed nor is there evidence that the defendants have controlled the supply of or restrained trade in ilmenite ore used in the commercial manufacture of titanium pigments in the United States".

Industry's Birth and Growth. The industry is of recent origin (FF 33, R. 246):

> "In and before 1920 there was no substantial trade or commerce in, and no commercial manufacture of, titanium pigments * * * ; pigments used for such purposes were lithopone, white lead and zinc oxide".

The growth of the industry, particularly in the United States, has been remarkable (FF 35, R. 247):

> "The production of titanium pigments in the United States has risen from 100 tons (on the basis

of pure TiO_2 content) in 1920 to approximately 110,000 tons in 1943 with a peak production of approximately 128,000 tons in the United States in 1941. The total production of titanium pigments and compounds outside of the United States has shown less growth, the estimated foreign production of titanium pigments and compounds being approximately 1,000 tons in 1920 and approximately 23,000 tons in 1938".

The industry does not sell to ultimate consumers, but to manufacturers, principally of paint, rubber, glass and other products (FF 33, R. 245).

The Case Affecting National Lead and Titan, Inc. The carefully prepared opinion and findings of the District Court[2] make it clear that this suit is divided sharply into two entirely separate disputes, the government opposing National Lead and Titan, Inc. in the one, and du Pont in the other. The principal subject matter of the trial below was the international cartel, called by the Department of Justice at the moment of commencing the case "a textbook cartel". This was the subject matter of the complaint and of practically the entire evidence.

The District Court found that National Lead[3] and Titan, Inc. were American members of a cartel[4] of titanium

[2]The District Court revised both its findings of fact and conclusions of law and its opinion to incorporate some of the suggestions made by counsel during conferences in chambers lasting over a period of more than a week.

[3]The District Court adopted certain initials set forth in footnote 1 of its opinion (R. 223) for the companies referred to throughout this litigation. For clarity, this brief employs instead the short form name of such companies.

[4]A collection of definitions of the term "cartel" are set forth in footnote 5 of the District Court's opinion (R. 224).

pigment producers which was world-wide (FF 64, R. 272). Other members were Titan companies in Germany, France, Great Britain, Canada and Japan (FF 44-63, R. 251-271). Each member of the cartel owned, or was licensed under, titanium pigment patents in various countries (FF 60, R. 270). The cartel had price and quota agreements with certain members of another combination of foreign titanium manufacturers, the Blumenfeld group (FF 66, R. 273, Ex. R. 178, 197, 221, 233).[5] Each of the members of the cartel was allocated certain countries as its exclusive trade territory and was licensed (with power to sub-license) under all patents belonging to every other member in such countries (FF 44, R. 251 at 253). All members of the cartel agreed to compel their sub-licensees and customers to abide by similar territorial restrictions. These restrictions were embodied in a basic

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[5]Subparagraph (3) of Rule 27 of the Rules of this Court provides in regard to the form of briefs that if the reference therein "is to an exhibit both the page number at which the exhibit appears and at which it was offered in evidence must be indicated". It is not feasible here, however, to refer to any page as being the page at which a particular exhibit was offered in evidence because of the unique method by which exhibits were introduced below. The District Court summarized such method thus (R. 735-736):

> "The Court. Let me state on the record that counsel and the Court having conferred in chambers with respect of methods of expediting the trial of the issuance of this case, they agreed to mark all the exhibits tendered by the Government in evidence, reserving to each of the defendants respectively an objection to each and every exhibit so tendered, and that the exhibits being so deemed received in evidence shall then be commented on in rotation by counsel for the respective parties. And if there be an objection relating to the authenticity of a document or the authority of the author of the document to declare what is attributed to him, then such objection shall be taken at that time."

Contract of 1920 which will be considered under heading B of the Statement of the Facts below; and acceptance of the so-called "principles" of that contract became the test of membership in the cartel. All the foreign companies bound themselves to them.

The government's case against National Lead and Titan, Inc. concerns primarily the validity of this cartel under the anti-trust laws (R. 200). Throughout this brief du Pont assumes the validity of the District Court's holding that the National Lead group constituted a combination or conspiracy in violation of Section 1 of the Sherman Act.

The Case Affecting du Pont. As far as du Pont is concerned the trial presented a very narrow issue: Did du Pont join the cartel conspiracy? To settle a *bona fide* patent dispute (FF 72, R. 279), du Pont and National Lead entered into a written patent cross-licensing agreement in 1933 in respect of United States patents,* which agreement was consistent with the then recent decision of this Court in the so-called *Cracking* case, *Standard Oil Co. (Indiana)* v. *United States*, 283 U. S. 163 (1931) (R. 214). Neither in its complaint (R. 1) nor in its proposed findings of fact (R. 78) did the government contend that du Pont's patent license agreement with National Lead was illegal on its face. Instead, it urged that du Pont joined the National Lead combination by orally agreeing to subscribe to its principles (R. 23, 106).

*(R. 69) The actual parties were subsidiaries (The Titanium Pigments Company, Inc. and Krebs Pigment & Color Corporation); but no point is made of this fact in defense. Du Pont and National Lead collaterally agreed to conduct their titanium business through Krebs and Titanium Pigments Co., respectively, a provision obviously designed to prevent evasion of the parties' patent and information obligations.

The government's case against du Pont completely disintegrated almost from the outset. It is made plain throughout the findings and opinion below that du Pont was outside the cartel. The District Court expressly held that du Pont never subscribed either orally or in writing to the principles of the National Lead cartel (R. 213). In fact, it made an explicit finding that there was no promise or agreement of any kind on the part of du Pont which implicated it in the conspiracy (FF 73, R. at 287-288).

The trial resolved itself into a minute search day by day for anything in any of the documents that might possibly hold du Pont.[7] After a full and painstaking review of all the evidence, the District Judge found in one or two documents dated in 1933 but which were neither written by or to du Pont the only basis in the entire record for concluding that du Pont was a member of the cartel conspiracy. Even these letters, remote in time, ambiguous in their terms and context, and wholly diluted by testimony of those familiar with the events, were not deemed sufficient by the District Judge to support a finding of agreement or understanding, either express or to be implied from surrounding circumstance and subsequent conduct.

The District Judge was merely able to find that the cartel was strengthened by an alleged "assurance" given by du Pont at the time it entered into the 1933 cross-licensing agreement that export to Europe would not take place

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[7]The parties facilitated, by stipulation, the introduction of documentary evidence (R. 370-375). Over 1400 exhibits were received in evidence (R. 232). The record in this Court (5688 pages) is primarily documentary, containing 809 pages of testimony, 4399 pages of exhibits and 480 pages of pleadings, etc. The exhibits were almost entirely those selected by the government from the files of the defendants which the government's representatives thoroughly culled.

(R. 217, 288), and that du Pont thereby became "a member of the combination—true, a special member, with a status, rights and obligations, different from that of the other members, but a member nonetheless." (R. 218). When du Pont gave this "assurance" it was not exporting to Europe and the District Judge expressly held that the so-called "assurance" given by du Pont was "no more than" a mere expression of its then existing export policy (R. 216) as to which it made no express or moral commitment that it would maintain in the future.

Du Pont contends that this statement of its current export policy was wholly proper under the circumstances and was reasonably necessary to enable it to obtain the non-exclusive licenses by means of which it established competition for titanium pigments in the United States. In the absence of any finding of agreement, express or implied, an essential element of conspiracy and combination is lacking and the case against du Pont should be dismissed.

STATEMENT OF THE FACTS

A.

Competitive Conditions Have Prevailed in the United States Since 1933

1. Du Pont's Entry Into the Industry and Patent Conflict with National Lead

Du Pont entered the titanium pigment business in the United States in the early 1930s (FF 10, R. 238), and, as will be seen, established itself as an arm's-length competitor of National Lead. It was aided in achieving this position through a series of negotiations which we will describe, culminating in a cross-license agreement involving United States patents which it entered into with National Lead in

1933. Its motive for entering the business arose from the fact that titanium pigments constituted a new form of white pigment which du Pont recognized to be of such growing importance in the chemical industry that it would replace du Pont's existing white pigment business (FF 70, R. 278).

Du Pont first attempted to manufacture titanium pigments by processes developed through its independent research (Ex. R. 986), but this proved impractical from a business point of view due to the already well intrenched patent position of the two American producers, National Lead and Commercial Pigments, a subsidiary of Commercial Solvents which had been set up to operate under the United States, but not under the foreign, Blumenfeld patents expiring in 1948 and thereafter (FF 34, R. 247, FF 37, R. 248, FF 70, R. 278). Du Pont accordingly determined to buy the assets of Commercial Pigments (Ex. R. 1051), an acquisition in and of itself not complained of in this proceeding.

Having acquired Commercial Pigments, however, du Pont still found itself unable to proceed economically with the manufacture of titanium pigments in competition with National Lead without infringing the cartel patents. Not only was Commercial Pigments involved in patent difficulties with National Lead but manufacture of titanium pigments by the Commercial Pigments processes alone would have resulted in a product having so much higher cost than National Lead's comparable product that it would not have been possible for du Pont to meet National Lead's price competition (Ex. R. 1353). Du Pont had, however, reason to believe that National Lead was infringing certain of du Pont's patents, and National Lead conceded this when it charged in turn that du Pont was infringing certain of

National Lead's patents (Ex. R. 1309, 1313-1314). There resulted what the Court found to be a *bona fide* patent conflict between du Pont and National Lead (FF 72, R. at 279).

This patent conflict was resolved only after extensive negotiation and exploration of technical processes and infringement claims which covered a substantial period of time (Ex. R. 1024-1025, 1028, 1089, 1150, 1172-1174, 1178-1183). Its resolution was embodied in the 1933 cross-licensing agreement.

The 1933 patent license agreement was fully in accord with the then recent decision of this Court in *Standard Oil Co. (Indiana)* v. *United States,* 283 U. S. 163 (1931) (*Cf.* the District Court's opinion, at R. 214).[8] Under this agreement the parties exchanged non-exclusive licenses under present and future patents and inventions relating to the titanium field and agreed to exchange technical information. Du Pont agreed to offer to any foreign associate of National Lead, before offering to anybody else, the opportunity to acquire a non-exclusive license for the licensed field under any of du Pont's present or future patents issued in Continental Europe and Great Britain. The agreement was subject to cancellation after December 31, 1933, on three years' notice.[9]

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[8]The application of the *Cracking* case to the 1933 Agreement is discussed below at pp. 84-108.

[9]The agreement also provided for an exchange of releases of infringement for the benefit of the parties and their respective licensees. Each agreed to assist the other to obtain a similar non-exclusive license under any United States patent under which it itself was licensed but did not have licensing rights, under which provision no license ever were in fact acquired. Royalty payments were provided, which were in no event to exceed $40,000 to be paid by either party to the other in excess of the other's payments to it or to be paid by any party after 1936, and such royalties were in fact paid (FF 73, R. at 282).

The District Judge found that this agreement promoted "the more rapid development of the titanium business" and created "greater freedom of action for the parties under titanium pigment patents and developments" (FF 79, R. at 293). Du Pont took advantage of this greater freedom of action to compete vigorously with National Lead, and this competition assisted the rapid development of the titanium pigment business.

2. Commercial Competition

A. *Increasing United States Production.* United States production of titanium dioxide in 1944 was more than twelve times production in 1931, the year du Pont entered the titanium pigment business (Ex. R. 986). The following schedule details the growth of United States production in tons from the time of du Pont's entry into the field (Ex. R. 3786-3787, 3814, R. 1147):

Year	Du Pont	National Lead	American Zirconium and Virginia Chemical	Total
1931......	825 (5 mos.)	9,767		10,592
1932......	3,873	9,729		13,602
1933......	5,511	8,445		13,956
1934......	10,699	13,264		23,963
1935......	20,027	18,483	2,206	40,716
1936......	25,185	25,420	3,053	53,658
1937......	37,530	28,468	3,616	62,614
1938......	27,633	22,789	7,299	57,721
1939......	35,305	38,340	9,295	82,940
1940......	42,354	49,984	9,853	102,191
1941......	50,674	64,035	11,967	126,676
1942......	44,383	61,621	7,551	113,555
1943......	42,843	61,502	6,673	111,018
1944[10].....	47,102	74,160	11,742	133,004

[10]Estimated on basis of first six months.

This production schedule reflects not only substantial increases made throughout the period in manufacturing capacity but also the keen competition which existed between du Pont and National Lead, as evidenced by the constant variation which took place in the percentage of the total market which du Pont was able to secure through its sales efforts.

B. *No Price Agreements.* The government threatened on several occasions to prove a price fixing case. This failed completely; and the Judge found that the prices established by du Pont and National Lead were not the product "of agreement or collusion" between them (FF 78, R. at 291). He found that "repeated reductions in the price of titanium pigments have taken place and a very few increases" (FF 78, R. 290). Price announcements were not made concurrently (R. 1150). There is no evidence that the contemplated price changes were even discussed between representatives of National Lead and du Pont in advance or that prior notice thereof was given by one company to the other. The testimony of company officials, who appeared and were cross-examined, was specifically to the effect that no arrangement, agreement or understanding of any kind in respect of price changes existed (R. 1077, 1168). There is substantial evidence of price competition (Ex. R. 4345-4360).

C. *No Division of Territory.* The District Court found that "There is no allocation of territory" between National Lead and du Pont in the United States or elsewhere (FF 78, R. at 291).

D. *No Allocation of Customers.* The government requested the District Court to find that there has been no

competition between National Lead and du Pont since the 1933 agreement (R. 110-111). To the contrary the District Court expressly found (FF 78, R. 290-291):

> "From 1933 on there was active competition between NL and DP for customers. * * * There is no allocation of * * * customers between NL and DP * * *".

Du Pont encountered competition from National Lead, Virginia Chemical and American Zirconium in the sale of its titanium pigments (R. 1158), as well as competition from other manufacturers selling large quantities of different forms of other white pigments, particularly lithopone and white lead (R. 1159, Ex. R. 3949). Included among such manufacturers were such companies as National Lead, Glidden, New Jersey Zinc, Sherwin-Williams and Eagle Picher (R. 1159).

Mr. Daley, General Manager of the du Pont Pigments Department, characterized the competition of National Lead as "plenty tough" (R. 1158), and the competition of Virginia Chemical and American Zirconium as "tough" (R. 1159).

Du Pont and National Lead each solicited the customers of the other and du Pont gained customers from and lost customers to National Lead (R. 1066, 1067, 1159, 1168, Ex. R. 4361-4363). Similar changes in accounts resulted as between du Pont on the one hand and Virginia Chemical or American Zirconium on the other by reason of similar sales competition (R. 1159, Ex. R. 4374-4382).

E. *Competition in Quality of Products.* The District Court found that du Pont and National Lead "each main-

tains a large, highly trained technical sales force engaged in endeavoring to sell titanium pigments" (FF 78, R. at 291). It further found (FF 78, R. at 291):

> "To a very large extent the salesmen of the two companies are chemists whose contact with consumers (that is, manufacturers of paint, rubber, glass, etc.) consists in endeavoring to demonstrate that their products merit acceptance on the basis of technical superiority".

The pigments are sold to many industries, but principally industries concerned with the manufacture and sale of paint, paper, rubber, cloth, flooring, etc. (R. 1055). The requirements of the users of titanium pigments vary greatly, not only as between industries but also as within a particular industry (R. 1155-1156). Thus du Pont has developed approximately 28 different grades of titanium pigment, each of which has distinct quality attributes. These pigments recognize such factors as dispersive properties in water, texture, opacity, hiding power, color retention, gloss properties, consistency and oil absorption, chalk and fade resistance, discoloration during baking, tinting strength, ease of grinding and other special properties, emphasized by a given use or manufacturing problem (du Pont Ex. 97).[11]

Differences in quality as between titanium pigments sold by du Pont and other titanium pigments constitute one of the most important areas of competition (R. 1078). Sales forces are technically trained to emphasize these distinctions, and du Pont utilizes special technicians who fol-

[11] This exhibit is not in the printed record but is on file in the Office of the Clerk of this Court and is a part of the record (R. 360).

low the salesmen and work closely, often for substantial periods of time, with du Pont's research staff and the customer or prospective customer in the development of pigments possessing qualities required by that specific customer (R. 1078).

The emphasis upon quality is also graphically demonstrated in the manufacturing operations of the titanium pigment manufacturers. Thus, in the case of du Pont numerous examples were presented of plant additions and improvements made for the purpose of meeting existing or projected quality competition presented by competitors (Ex. R. 4325-4360). Throughout these requests for appropriations to the du Pont Executive Committee run such phrases as: "our existing business will be seriously jeopardized unless we quickly place ourselves in position to meet this improved quality requirement" (Ex. R. 4325); "Project estimates are of high spot nature, due to speed necessary to place ourselves in competitive position" (Ex. R. 4330); "We consider it absolutely essential to install Mikronizers for dry grinding LO grades of TiO_2 at Baltimore in order to avoid a probable serious loss of business to a competitive manufacturer who would be in the position of selling TiO_2 with important quality advantages which would otherwise not be available to us" (Ex. R. 4332); "In recent months our principal titanium dioxide competitor has placed on the market several distinctly improved grades, combining better pigment dispersion, improved paint gloss, and lower grit (all very important properties), which grades have already cut in on some of our trade, and unless duplicated will make serious inroads on our established business" (Ex. R. 4338); "This project is wholly necessary for quality rea-

sons" (Ex. R. 4342); "The justification of the expenditure herein requested is wholly one of quality, due to advancement in the titanium pigment art, and necessary to maintain and better our competitive position" (Ex. R. 4358).

F. *Development of New Products.* The District Court found (FF 78, R. at 291):

> "NL and DP have endeavored to match each other's titanium products; but each also manufactures certain titanium pigments having special applications not manufactured by the other".

The development of new titanium pigment products of improved quality or designed for special uses is given great emphasis by du Pont, which employs over eighty research chemists to work on titanium pigments alone (R. 1160), and these chemists are constantly concerned with the improvement of products or the development of new products, having regular meetings and consultations through a New Products Committee, to which are appointed research, production and sales representatives (R. 1161).

3. History of Exchange of Technical Information between National Lead and du Pont, and of its Abandonment in 1940

As has been seen, the 1933 patent licensing agreement between National Lead and du Pont provided for an exchange of technical information between the parties (R. 70). The industry was still in its initial stage of development and the parties believed that it would be desirable to exchange information.

As the industry rapidly developed in the ensuing years (after 1933), each Company became progressively more

able to manufacture on its own, without access to the technical information of the other. Each developed a technical information of its own.

This development was reflected in a deterioration in the frankness with which each supplied technical information to the other. As time passed, the parties became more and more unwilling to continue the arrangement. An instance of withholding information established by the record occurred as early as January, 1934, when National Lead held back certain information from du Pont (Ex. R. 1841). On February 25, 1936, Dr. Booge, who was in charge of du Pont's titanium pigment research, recorded in a memorandum his impression that Mr. Turner of National Lead was withholding information, stating that this was "definitely the first time that this situation has developed" (Ex. R. 4311), meaning that this was the first time withholding had come to du Pont's attention. Beginning in 1936 there is also evidence that the relations between the technical representatives of the Companies were becoming less cordial and more reserved in respect of mutual disclosures of information (Ex. R. 1848-1876, 4314).

The scope of the exchange also became limited in one way or another. By 1937 the parties had officially narrowed the exchange of technical information in two important respects. They provided that no information was to be exchanged on new pigments and new grades of existing pigments until they were released for sale, and that only where authorization of $5,000 or more for new equipment had been made would research reports be exchanged (Ex. R. 1849, R. 903-904; Ex. R. 3086, 4314). Further limitation of the field of technical exchange occurred in 1939 and

early in 1940, when du Pont insisted upon a very strict interpretation of the licensed field of the agreement and advised National Lead that it insisted on eliminating exchange of processes and information relating to the production of extenders as opposed to titanium compounds (Ex. R. 1870-1900).

In April, 1940, du Pont advised National Lead that it was determined to withdraw completely from the exchange of technical information (Ex. R. 1926-1931); and on April 29, 1940, a formal letter canceling the exchange of technical information as of May 1, 1940, was sent by Rupprecht on behalf of du Pont to National Lead and accepted by the latter (Ex. R. 1942). Subsequent to that date no technical information was exchanged between the parties (R. 907, 1167, Ex. R. 4321), and the elimination of the exchange of technical information was formalized in an amendment dated as of January 1, 1941 (R. 73, 1166-1167).

The District Court found (FF 75, R. 289-290):

> "As of about May 1, 1940, the exchange of technical information between NL and DP was discontinued; and the 1933 agreement between TP and Krebs, which had been assumed by NL and DP, respectively, was, by an agreement between NL and DP dated January 1, 1941, (Ex. E-3) amended to eliminate provisions for exchange of technical information".

4. Du Pont's Licensing Policy and Practice

A. *No Refusal to License Under its Patents.* In addition to licensing National Lead, du Pont licensed American Zirconium and Virginia Chemical under titanium pigment patents, including the important rutile patents. The District

Court found that "No other company or person requested such a license from DP" (FF 83, R. 295).

B. *Licenses to Virginia Chemical.* The government charged in its complaint that du Pont and National Lead agreed they would utilize the threat of infringement proceedings to compel Virginia Chemical to accept a license and that before du Pont granted this license to Virginia Chemical it secured the approval of National Lead to the terms thereof (R. 29). At the trial the government likewise sought to have the District Court find that there was joint action taken by du Pont and National Lead against Virginia Chemical (R. 108). To the contrary, the District Court found that:

> "There is no evidence that the action of NL and DP with respect to VC was the result of agreement between NL and DP" (FF 85, R. at 298).

It also found that "VC was organized in 1935 to manufacture titanium pigments in the United States", that "DP notified VC of its patent holdings in the titanium field", that "Negotiations followed which resulted in an agreement, Ex. L, executed August 15, 1937", that "By this agreement DP granted VC a non-exclusive license under a specified list of U. S. patents subject to royalty payment on all production of TiO_2 and subject to limitation on the quantity produced under the license ranging from 3000 tons of TiO_2 content for the year 1937-8 to 9000 tons for 1946 and any year thereafter", and that "VC granted DP a non exclusive, royalty free license under a named patent" (FF 85, R. 297). It further found that "In November, 1940, DP granted VC a similar license under another patent in this field for an additional royalty", that "On July 22,

1943, DP granted VC a similar license under its patents for rutile pigments, without additional royalty", and that "In November, 1944, DP cancelled the quantity limitations in the licenses" (FF 85, R. 297).

C. *Licenses to American Zirconium.* The District Court found that "Early in 1934 Zirconium, which was owned by Glidden Company and by Metal and Thermit Corporation in equal shares, began to manufacture titanium dioxide. It owned some patents relating to such manufacture which it had acquired from its parent corporations" (FF 84, R. 295). Continuing the theme of collusion between National Lead and du Pont, the government charged in its complaint (R. 27), and at the trial urged the District Court to find (R. 107-108), that du Pont and National Lead agreed that they would use the threat of infringement suits to compel Zirconium to accept the license agreements from them and that they further agreed on the terms of the license agreements which they separately granted Zirconium. The District Court refused to make this finding and held instead (R. 198):

> "NL and DP *severally* notified American Zirconium that it was probably infringing".[12]

It also found (FF 84, R. at 296):

> "The evidence does not warrant the inference that the licenses granted by DP to Zirconium and the cross-licensing agreement between NL and Zirconium were made pursuant to a common plan of NL and DP or as a result of concerted action by them."

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[12]Italics ours throughout the brief, unless otherwise indicated.

Du Pont commenced its negotiations with Zirconium on January 8, 1934, almost five months before National Lead made its first contact with it (FF 84, R. 295, Ex. R. 1651, 1656). The license arrangements made by du Pont and National Lead were wholly different in form and substance.

The District Court described National Lead's license as "an agreement dated May 6, 1935, Ex. H, whereby NL in lieu of royalties received 10% of the stock of Zirconium, had its president elected to Zirconium's Board of Directors, and NL and Zirconium cross licensed each other under all patents in the titanium pigment field, then owned or thereafter acquired, and both parties agreed to exchange technical information and experience" (FF 84, R. 295). The District Court found that "Zirconium assumed obligations substantially like those of Article XIV of the 1920 agreement, Ex. A, including restrictions on its exports" (FF 84, R. at 296. The 1920 agreement, Ex. A, is described *infra*, pp. 24-25). In other words, the Court found that Zirconium itself did what the Court found that du Pont would *not* do, viz., agree and obligate itself to the restraints imposed by the "principles" of the cartel as the price for obtaining patent licenses from the cartel. On the other hand, du Pont's license (which was executed on August 19, 1935, more than three months after the execution of National Lead's license) merely "granted Zirconium a non-exclusive license under specified patents, for the life of the patents, subject to the payment of a royalty on all TiO_2 produced and subject to a limitation on tonnage of 3,000 tons in 1935, to 9,000 tons in 1944 and thereafter, of titanium dioxide produced under the license" (FF 84, R. 295).

There was no connection between du Pont and any of the foregoing relations between National Lead and Zir-

conium. The District Court found that "On March 7, 1943, DP licensed Zirconium under additional patents without additional royalty" and that thereafter (as in the case of its licenses to Virginia Chemical) du Pont terminated all tonnage limitations under its licenses in November, 1944 (FF 84, R. 295).[13]

B.

Creation and Operation of the Cartel— du Pont not Concerned in This

1. Introductory

There is no substantial suggestion in the record or by the Court that du Pont had any part in the activities described under this heading B. They were discussed by the District Judge in his opinion under a separate heading (R. 200) entitled "The Case Against NL and Tinc", and with no reference to du Pont.

Yet the cartel was the essential subject matter of the case; and the government commenced the case on the charge that du Pont was a genuine member of the cartel just as was National Lead. This was no mere "part" of the case against du Pont; it was originally *the* case against du Pont, and with its collapse the complaint against du Pont might more fairly have been dismissed.

The government has followed a different course. Defeated on the central issue, it has clung on to a subsidiary issue—that du Pont, in accepting a patent license from the cartel, gave it aid and comfort. In its defense against this issue, a description of the cartel becomes important to du

[13]For a detailed statement of the modification of the Virginia Chemical and Zirconium licenses, see pp. 102, 105 below.

Pont itself, not because du Pont was involved in it, but because it shows what du Pont as a new competitor in a new industry had to face.

The Judge found that du Pont made *no agreement* to become a member of the cartel. Our first point in argument is that this is conclusively in favor of du Pont on the merits, as an agreement is necessary under the anti-trust laws.

In the absence of agreement, the question as to how du Pont or any other new competitor was to defend itself in a cartelized industry is a question of the reasonableness of what it does. It must be measured against the very fact that it has been confronted with the situation which we now describe.

2. The Conspiracy

The cartel conspiracy was formed on July 30, 1920, by the Contract of 1920 between Titanium Pigment Co. and Titan A/S (R. 187). This agreement set forth in Article XIV in explicit terms the basic structure of the cartel scheme. It provided:

(a) For the assignment of North America to Titanium Pigment as its exclusive territory, and of the rest of the world (except South America which was to be common territory) to Titan A/S;

(b) For a patent exchange of present and future patents to conform to the foregoing territorial assignments;

(c) That neither company would ship into the other's territory without its consent;

(d) That each company would prevent exportations into the other's territory of finished articles containing titanium;

(e) A restriction on the granting of licenses, not only under the patents of the other but under its own, unless the licensees agreed to accept the obligations and restrictions of the Contract of 1920.

In the years which followed, the principles of this Contract served as a guide for the members of the cartel. The development of the cartel involved the execution of more than 60 agreements which closely interlocked National Lead and the various foreign manufacturers (R. 188). It was these agreements which the District Court stated in its opinion "confined the international trade in titanium products within the preordained channels where-through it moves only by the grace and under the regulation of NL and its foreign associates" (R. 192). The cartel was in a position to strike down any incipient independent competitor. The network of agreements established private trade barriers around clearly defined territories. No member of the cartel dared trespass into territory allotted to others. All commerce between territories in titanium products was forbidden except by mutual consent, and this suppression of commerce involved not alone patented articles or articles produced by patented processes but all products in the titanium pigment field (R. 191).

In considering du Pont's unique problem at the time the 1933 agreement was executed, it is worth emphasizing the sources of this tremendous power. The power rested not alone upon private trade agreements. It was strongly bolstered by patents, tariffs, the size and influence of the participating units, state subsidies, and control of raw materials.[14]

[14] For a discussion of the factors which shaped du Pont's export policy, see pp. 43-46 below.

By the time the 1933 patent licensing agreement between du Pont and National Lead was executed, for example, there were two groups of manufacturers of titanium pigments (FF 37, R. 248). They had consolidated their efforts in every important industrial community in the world except the United States and had full control of essential patents and technical information. The first group was founded upon the Barton-Rossi and Jebsen patents. All the members of this group subscribed to the principles of the Contract of 1920, which according to the District Court was evolved "to prevent competition between the parties to the agreement and between their respective sublicensees and between each of the parties and the sublicensees of the other" (FF 46, R. 255). Participating members were intrenched in France, Germany, the British Empire, and later in Japan, Canada and Newfoundland (FF 49-56; R. 256-267).

The other group, based upon the so-called Blumenfeld patents, consisted of important companies in various countries, including England, France, Austria and Italy (FF 37, R. 248). These companies had also allocated territories and cartelized activities among themselves. The two groups were bound together by a significant series of agreements which were already under way at the time the 1933 patent license agreement between du Pont and National Lead was executed. Indeed, the first of these agreements which formed the pattern, an agreement between Aussig (the Blumenfeld company in central Europe), and Titangesellschaft (the National Lead associate in central Europe), had been settled by June 19, 1933 (Ex. R. 1474). Thereafter, supplementary agreements, fully outlined in the District Court's findings (FF 66, 67, R. 273-277), were completed and embraced both patent arrangements and quota understandings.

The two closely knit groups also developed machinery through International Sales Committee meetings for policing the markets, reviewing trends, enforcing quotas, all for the purpose of excluding competitors, as illustrated by reports of these meetings spread upon the record (Ex. R. 2885, 2892, 2915, 2917, 2932).

We will not burden this brief with a detailed chronological statement of the development or with a review of all manifestations of the complete authority and blanketing of the titanium pigment industry resulting therefrom. It suffices here to say that it was established by the government at the trial beyond doubt that the cartelized condition, briefly summarized above, was firmly rooted in the industry at the time du Pont acquired Commercial Pigments and thus entered the titanium pigment business (FF 37, R. 248). Du Pont, as the District Court found, was not a party to the various contracts and agreements which interlocked and solidified this cartel. Indeed, du Pont had but little knowledge of the cartel's activities and took no part in the negotiation, execution or performance of the various agreements by which the cartel was intrenched. The record is replete with evidence that the cartel functioned without consulting or communicating with du Pont and treated du Pont as an outsider, as in fact it was.

C.

Unsuccessful Efforts to Bring du Pont Into the Cartel

1. Consent of National Lead's Foreign Associates to the 1933 Patent Licensing Agreement

A. *Requirement of Obtaining Such Consent.* Du Pont was a wholly free and independent agent in the negotiations

which led to the 1933 patent licensing agreement, but National Lead was not. National Lead was bound by its preexisting cartel contracts with its foreign associates which prevented it from entering into any arrangement with du Pont without their approval and consent. Specifically, National Lead was obligated by the principles of the Contract of 1920 not to agree to a non-exclusive contract, unless territorial restrictions should be included. The District Court described the situation thus (FF 73, R. 280):

> "Contract Exhibit A by its terms prevented TP from entering into a contract with Krebs unless Krebs subscribed to the provisions of Article 14 of Contract Exhibit A and particularly unless Krebs agreed not to export into the territories of NL's foreign associates and unless Krebs agreed to grant exclusive licenses to NL's foreign associates under all its present and future patents for titanium pigments and compounds in the territories of the foreign associates".

In 1933 the cartel was already at practically full strength.[15] It was in full command in the two principal industrial centers of Europe—Germany and Great Britain—and had an important operating subsidiary in France and

[15] In 1933 National Lead's immediate foreign associates were Titan, Inc., Societe du Titane (France), British Titan (Britain) and Titangesellschaft (Germany). Jebsen was Titan, Inc.'s active executive (Ex. R. 514); National Lead owned 87% of Titan, Inc.'s stock (FF 4, R. 236). Titan, Inc. owned 78% of the stock of Societe du Titane (FF 49, R. 256). Imperial Chemicals, Goodlass Wall and Imperial Smelting, being together all the principal companies in the British chemical industry, each owned 17% of British Titan's stock, and the remaining 49% was owned by Titan, Inc. (FF 20, R. 241, FF 21, R. 242, FF 52, R. at 260). Titan, Inc. and I. G. Farbenindustrie jointly owned all of Titangesellschaft's stock (R. 193).

through National Lead had a dominating position in the United States.

No competitor could enter the field in the United States without infringement of the cartel-controlled patents unless it either would accept "the principles" of the cartel or could, through some counter-strength or persuasion of its own, move the cartel to back down from its requirement (as du Pont did).

B. *Du Pont's Refusal to Make Illegal Commitment During Negotiations Culminating in the 1933 Patent Licensing Agreement.* British Titan, the English associate, consented to the execution of the 1933 cross-licensing agreement as written as early as May 29, 1933 (Ex. R. 1488). Titan, Inc. and Societe, the French associate, consented through Jebsen (R. 962, 992). I. G. Farbenindustrie, the German associate, however, at first refused to consent (Ex. R. 1479-1480), but, after much correspondence, finally did consent (Ex. R. 1513). The history of how and why I. G. Farbenindustrie consented,—whether in effect I. G. Farbenindustrie gave in to du Pont (as we contend), or du Pont gave in to I. G. Farbenindustrie and thereby accepted the cartel "principles"—is the central battleground in the du Pont case. It is on the basis of such negotiations that the District Court held that du Pont joined the illegal combination and conspiracy of the National Lead group (R. 215, 280-289).

While there is no evidence that du Pont ever saw the 1920 Contract, the District Court found that "NL advised DP of its contracts with TAS in May of 1932 and of the restricted nature of said license agreements" (FF 72, R. at 279). But du Pont declined from the outset of such negotiations to adhere to the principles of the Contract of

1920 and specifically refused to agree to refrain from exporting into the territories of National Lead's foreign associates or to grant them at that time exclusive licenses under its foreign patents. The District Court recognized this (R. 214), and its essential inquiry was into the *reasons* that du Pont assigned for its refusal. What the District Court held, was that "The reasons assigned by DP for its refusal were several, and varied from time to time, but always conspicuous among them was the claim that its adherence was forbidden by the anti-trust laws" (R. 214).[16]

National Lead was eager to reach some form of agreement with du Pont (R. 213). Its first outline of a proposed cross-licensing agreement was inconsistent with the principles of the 1920 agreement in that it sought no commitment from du Pont limiting its exports. In submitting to Jebsen such outline on February 2, 1933, National Lead noted that, if the agreement was accepted by du Pont, "the Titanium Pigment Company will take the necessary steps to bring about an amendment to the license agreement of 1920 between the Titanium Pigment Company and the Titan Company A/S which will permit said cross-licensing without imposing the burdens upon the Krebs Corporation which said license agreement of 1920 would otherwise impose" (Ex. R. 1426).

National Lead foresaw advantages resulting from an agreement with du Pont even though it was inconsistent with the territorial and other provisions of the 1920 agree-

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[16]Thus when du Pont acquired Commercial Pigments, it found that the latter company was obligated by contract to refrain from selling abroad. Du Pont refused to assume such contractual obligations and refused to make any renewal of such agreement with the other contracting party. Blumenfeld (FF 73, R. at 289).

ment (R. 213). The District Court, however, properly pointed out: "NL's motives for this eagerness are not too important. It matters little whether it sought the reciprocal advantage of DP research; or whether it feared DP's hostile competition more than it feared its less friendly, though competitive, collaboration; or whether it anticipated that NL and DP together would constitute an alliance so formidable as to preclude any other important competition" (R. 213-214).

National Lead considered that there was no *practical* justification for any interference by its foreign associates in its obtaining this non-exclusive cross-license agreement with du Pont. National Lead did give some consideration to the territorial problem but apparently felt it was not of major consequence. G. W. Thompson of National Lead wrote Jebsen in February, 1933, stating explicitly: "It is obvious to me that the Krebs Corporation could not possibly do a profitable export business where our European titanium pigment manufacturers have costs so much lower than we have in the United States" (Ex. R. 1422). A month later, in March, 1933, he again stressed the commercial impracticability of titanium pigment exports in referring to the concern of National Lead's foreign associates over the possibility of foreign competition from Krebs: "This [the lack of any territorial commitment by du Pont] may be more of a mare's nest than a reality because I can not conceive how any product, for many years to come, in the Titanium line can compete in cost with foreign products" (Ex. R. 1443).

Some of the Europeans did not see the matter in the same light, however. The Germans insisted upon adherence by du Pont to the cartel principles. The "deviation"

between the proposed du Pont non-exclusive agreement and the cartel "principles" was so substantial as to shock Jebsen, the author and guiding spirit of the 1920 Contract (R. 1003), as he was prompt to make clear in two letters written to National Lead's Thompson from Europe under date of March 1, 1933 (Ex. R. 1430, 1436).

Thompson recorded in a memorandum his impressions upon reading Jebsen's letters (Ex. R. 1443). He there stated: "It is very doubtful if we could directly bring Krebs into fully accepting the fundamental principle Jebsen refers to" and noted the advantages which would, nevertheless in all probability, accrue directly to National Lead, and perhaps indirectly to National Lead's foreign associates, under the agreement proposed.

On April 8, 1933, Rupprecht, President of Krebs, sent to Beschorman, who by this time had taken charge of the negotiations on behalf of National Lead (R. 990-991), the cross-licensing agreement in the form in which it was subsequently executed, and on the same day submitted the agreement to du Pont's Executive Committee for approval (Ex. R. 1451). The agreement contained none of the provisions which Jebsen felt should be included, i.e., it did not compel Krebs "to refrain from sales outside U. S. A. or North America" or commit it to "technical cooperation outside North America" with National Lead's foreign associates.

After Rupprecht sent Beschorman the proposed agreement in final form, the latter took it with him on a trip to Europe in the Spring of 1933 (R. 960, 988). According to Jebsen, Beschorman insisted throughout this trip that "we have got to sell the agreement to the Germans" (R. 960, 988, 1028). Beschorman was "a very self-willed per-

son" (R. 960, 991, 1028) who did not, in Jebsen's view, comprehend the implications of the 1920 Contract (R. 962), and wasn't interested even in discussing it with him because his relations with Jebsen were apparently not cordial at the time (R. 960, 988, 1028). Although Jebsen was discouraged by the fact that he could not convince Beschorman not to enter into an agreement with du Pont because it did not conform to the principles of the Contract of 1920, he finally decided that it was to his best interests, since he was an employee of National Lead, to help Beschorman's efforts to sell the proposed agreement to the Germans (R. 962, 992).

Jebsen and Beschorman presented the proposed agreement to Kuhne of I. G. Farbenindustrie who "just said that the legal department would go through it and then answer it" and then indicated in addition that he "had no doubt that the thing would be all right because National Lead Company was fifty per cent interested in the German Company, and so on" (R. 961, 988). Kuhne proved to be over-optimisitc.

Later Jebsen conferred in Frankfurt on July 19, 1933, with Kuhne and I. G. Farbenindustrie's lawyers, all of whom refused to consent to the proposed agreement (notwithstanding Jebsen's efforts to make them do so) on the ground that it did not conform to the principles of the Contract of 1920 of benefit to I. G. Farbenindustrie (R. 961, 989-990). A few days later Jebsen advised Beschorman that I. G. Farbenindustrie "put forward exactly the same points" which he had laid down in one of his letters of March 1 to Thompson (Ex. R. 1475) thus noting I. G. Farbenindustrie's concern that the proposed agreement did not conform to the principles of the 1920 Contract. Meanwhile, I. G. Farbenindustrie set forth its objections to the proposed agreement in a letter to Jebsen (Ex. R. 1479):

"We have carefully examined how this contract affects the interest-sphere of Titangesellschaft, and it seems to us, that at least one important point in the new contract has not been clearly expressed, namely that Krebs unconditionally have to respect the territory reserved Titangesellschaft in the License Agreement of October 1927 between Titan Co. A/S and Titangesellschaft, that is that Krebs

"a) shall not themselves manufacture in the territory of Titangesellschaft,

"b) shall not make deliveries in this territory,

"c) shall also impose upon their customers a corresponding obligation not to deliver in this territory,

"d) shall grant sublicenses only to undertakings outside this territory and for use outside of this territory,

"e) shall strictly observe the same limitation as under d) also regarding the experiences of which they get knowledge and which originate from Titangesellschaft.

"We consider it of the greatest importance to have this point made clear, as otherwise the unbearable situation may arise for the Titangesellschaft, that Krebs compete with Titangesellschaft in the latter's territory, with T.G.'s own patent-rights and experiences which are transmitted to Krebs through Titanium Pigment Company."

On June 22, 1933, Jebsen cabled Beschorman advising him of the substance of I. G. Farbenindustrie's objections (Ex. R. 1472). Beschorman did not send Rupprecht a copy of either I. G. Farbenindustrie's letter or Jebsen's

cable but instead sent to Rupprecht a portion of Jebsen's cable which read as follows (Ex. R. 1473):

> "Agreement Krebs acceptable to I G Farbenindustrie provided clearly expressed by Krebs in some form that they will respect Titangesellschafts territory not manufacture there make no deliveries direct or by customers give no sublicenses and no technical aid for manufacture within or for that territory Stop I G considers three years agreement short in view of parting with experience and suggests five years but makes it no condition Stop I Gs reservations should also apply Titan Incs territory."

Jebsen's cable to Beschorman noted that he would leave Europe for New York on July 1, 1933, but Beschorman did not pass on this information to Rupprecht (Ex. R. 1472, 1473, R. 961, 990), and before Jebsen arrived Rupprecht had written to Beschorman a letter dated June 28, 1933, stating, in polite but firm language, du Pont's refusal to change the written contract for the purpose of meeting I. G. Farbenindustrie's objections and giving his reason: that such changes would make the arrangement in violation of the Sherman Act (Ex. R. 1483). This is one of the two crucial letters in the case as far as the District Judge's findings adverse to du Pont are concerned. The letter is discussed and analyzed at some length in subsequent portions of the brief and its full text is set forth in Appendix A.

In an intra-office contemporaneous memorandum to an official of du Pont, written at the same time, Rupprecht noted that he had talked several times with Beschorman on the subject, and that Beschorman felt that Rupprecht's letter "should take care of the situation" (Ex. R. 1485).

Rupprecht's position in his conversations with Beschorman is made clear by the following quotation from the memorandum:

> "I told him that it was a selling job for them to make I. G. realize that they were putting their interests in National Lead's hands, and that they would be well taken care of. Mr. Beschorman told me that when he saw Dr. Kuhne, in charge of the I. G. Titanium Plant at Leverkusen, Germany, the latter definitely said that it all seemed o.k. to him and he would write a letter of approval. Instead of the letter of approval, this cable was received.
>
> "There is no further move to be made now as the next step is up to National Lead. * * *"

And in another contemporaneous memorandum he noted concerning his letter that Beschorman "seemed to feel this ought to take care of the situation, so we now have to sit back and leave the rest to them" (Ex. R. 1487).

Beschorman did not send Rupprecht's letter to I. G. Farbenindustrie immediately on receipt; instead he prepared a letter dated July 12, 1933 (Ex. R. 1496), set forth in full in Appendix A to this brief, which Jebsen eventually enclosed, together with Rupprecht's of June 28, in a letter which Jebsen wrote to I. G. Farbenindustrie on July 21, 1933 (Ex. R. 1495). Beschorman showed his letter to Rupprecht and sent him a copy for Krebs' records before it was sent to I. G. Farbenindustrie (FF 73, R. at 287). There is no evidence as to what, if anything, Rupprecht did about the Beschorman letter. Rupprecht died before the trial (R. 283, 1152); and neither the government, which of course had the burden of proof, nor National Lead, whose officer Beschorman had been, called the

latter as a witness. He was in fact seriously ill, and has since died.

In the interim, on arriving in New York, Jebsen resumed his attempts to get Beschorman to persuade Rupprecht to subscribe to the principles of the Contract of 1920, but his efforts fell upon deaf ears (R. 1028-1029). Jebsen also had one meeting with Rupprecht, at which he himself attempted to persuade Rupprecht to subscribe to the principles of the 1920 Contract (R. 961, 1042). Neither at this time nor at any other time did Jebsen ever succeed in obtaining Rupprecht's oral or written agreement to adhere to such principles (R. 961-2). Rupprecht explained to Jebsen in definite terms that he could not do so (R. 993-994, 1030-1031). Jebsen found that Rupprecht was "too slippery" (R. 961); had "too many answers" (R. 993); was "evasive" (R. 998); was "a man you never could pin down to anything" (R. 1002, 1044); and never got down "from sound to things" (R. 1032). He, therefore, came away from the conference not feeling "happy" (R. 994, 1033, 1035) but "hoping that as time developed I might be able to get him to understand and sooner or later fall in line" (R. 995). Jebsen was also feeling "uncertain about the future" (R. 1033), was not "satisfied" (R. 1043-1044) and was thinking that "we would have to take a chance" (R. 1031).

Jebsen in writing to I. G. Farbenindustrie after his meeting with Rupprecht (Ex. R. 1495) made an effort, similar to the effort made by Beschorman in his letter, to persuade I. G. Farbenindustrie that du Pont would not act in a manner detrimental to I. G. Farbenindustrie's interests, but none of their letters purported to state that du Pont had in fact subscribed orally or otherwise to the 1920 Con-

tract. Like Beschorman, Jebsen was attempting to sell the agreement to the Germans (R. 959-960, 1029, 1036-1040). Jebsen testified that his letter (Ex. R. 1495) was merely a recommendation to the Germans that the best thing to do "was to go ahead and take a chance in the matter" (R. 1038, 1052, 961). Jebsen did not represent I. G. Farbenindustrie's interests at any time during the negotiations (R. 992, 996). The Germans fully appreciated that he was free to advocate National Lead's viewpoint (R. 1034-1035, 1036-1039, 995-996). Jebsen testified that "if there had been any oral understanding" during his visit to the United States "it would be natural for me to go to the Germans and explain that" (R. 1021-1022). He did not do that on his return to Europe (R. 1021-1023). On August 7, 1933, I. G. Farbenindustrie consented to the proposed agreement in a letter to Jebsen (Ex. R. 1513), who was then back in Europe, which concluded, wholly without justification and presumably to save face in view of its prior objections, that Krebs "will loyally respect the territorial delimitations as regards manufacture, granting of licenses and sale" in accordance with the basic agreements of Titan, Inc. and Titangesellschaft (FF 73, R. at 288). The District Court found that "There is no evidence that the aforesaid construction was communicated to DP" (FF 73, R. at 288).

On August 28, 1933, Exhibit E was executed by Krebs and Titanium Pigments Co., as subsidiaries of du Pont and National Lead, in the form originally submitted by du Pont on April 8, 1933, prior to which time it had been approved by du Pont's Executive Committee.[17]

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[17]The 1933 agreement was attached as Exhibit A to du Pont's answer (R. 69); it became Exhibit E at the trial (R. 280).

2. *Du Pont Remained Independent During the Period Subsequent to 1933.* The conduct subsequent to the execution of the 1933 patent licensing agreement need only be briefly summarized here, inasmuch as the District Judge, in spite of the government's urgings, failed to find in it evidence sufficient to support a finding that du Pont entered the cartel conspiracy either in 1933 or at a later date. We have already shown that following this agreement a highly competitive situation developed in the United States titanium pigment market, du Pont and National Lead competing not only with each other but with the two other producers in the field, without division of customers or territory and without price agreement or other restrictive practices.

And that neither National Lead nor its foreign associates regarded du Pont as one of the group, is evident from their files subsequent to the execution of Exhibit E which disclose beyond any question that they were constantly seeking unsuccessfully to persuade du Pont to join forces with them. Thus, in the Summer of 1934, Jebsen wrote to Beschorman stating (Ex. R. 2938):

> "In these matters of technical co-operation, we have, as you know, laid down and established very definite rules between our various associated companies. The basis for co-operation with DuPont is somewhat different and by far not so defined."

On January 4, 1935, Jebsen again wrote to Beschorman in a form clearly indicating that at that time he did not consider du Pont to have subscribed to the principles of the 1920 Contract (Ex. R. 2953-2955):

> "At present we have a better opportunity than at any other time to bring Krebs to our views, be-

cause of their infringement of Titan Co.'s patents, later it will be more difficult because on the one side Titan Co.'s opportunities of making new inventions are lessened and our German and English associates with larger staffs in close contact with actual production are increasing.

"Our aim should be to get the relations with Krebs as far as possible in line with the ideas and conditions laid down in Article XIV of the license agreement of 1920 * * *."

Nothing could have resulted from this, either, for in August, 1937, Jebsen again wrote, this time to National Lead's Kaegebehn, stating: "I hope that DuPont also will come in line and realize the advantage of our co-operation in the whole Titanium field" (Ex. R. 2521), and there was other correspondence in the same year to the same effect (Ex. R. 2536).

The government emphasized the fact that du Pont entered into license agreements with Titan, Inc. (Ex. R. 406, 412, 455, 470, 486), in the years 1937, 1938, 1939, 1940 and 1941. But admittedly these agreements related only to specifically identified patents and were licenses only. None of them precluded du Pont from utilizing its foreign patents abroad, and each of them was negotiated separately pursuant to the provisions of Article V of the 1933 agreement.

The Court considered whether this Article had been in any degree modified by subsequent oral understanding, and found an oral understanding to exist (FF 89, R. at 301) which, however, was not in itself illegal or sufficient to make du Pont a conspirator. While the finding as to the oral understanding is not supported by the evidence (e.g. Ex. R. 3056-3058), we do not stress this point, since it was of no

major consequence in the ultimate decision (R. 213, FF 73 at R. 289). The finding, such as it was, seems to have been based on a misreading of a negotiation in 1938.

Jebsen came to the United States on May 17, 1938 (R. 760). He was still dissatisfied with the relations between the Titan Companies and du Pont because the principles of the 1920 agreement had not been accepted (R. 1039-1040), and he determined to make another attempt to get "Rupprecht into line" (R. 1041). He also found it both annoying and inconvenient to clear each specific license agreement with National Lead's foreign associates and he thought it would be highly desirable to arrange a general agreement between du Pont and National Lead (R. 1040-1041).

Jebsen and Kaegebehn of National Lead had two meetings with Rupprecht during Jebsen's brief stay in the United States (R. 771). The first of these meetings took place on June 3, 1938, in National Lead's offices (R. 771). At this meeting the idea of any general agreement was abandoned after Rupprecht specified the refusal of du Pont's Legal Department to sanction such an arrangement (R. 779-781).

A subsequent meeting was held in Rupprecht's office in Wilmington on June 8, 1938, at which some final details with respect to a specific du Pont-Titan, Inc. patent license agreement were considered, and the negotiations came to an end (R. 771, 778, Ex. R. 3077). Jebsen returned to Europe soon after the June 8 meeting (R. 778).

The upshot of his negotiations had been that he had failed to obtain any satisfaction from du Pont, which continued to refuse any general cooperation. The most that Jebsen was now reduced to seeking was that du Pont should

not, in licenses (individually negotiated) to European companies, reserve rights to itself. Even this was refused.

Rupprecht's memoranda submitting each of the patent licenses to du Pont's Executive Committee for approval also show that the reservation of du Pont's rights was genuine. Rupprecht stated, when recommending approval of the first of them (Ex. R. 4221):

> "Since the patents covered by this agreement offer little possibility of return, this agreement will permit the Company to maintain these patents without expense, and it is, therefore, recommended that the Management be authorized to execute the license as herewith submitted."

And when recommending approval of the second (Ex. R. 3044):

> "Since the patents covered by this agreement offer very little possibility of return, the agreement enables the Company to maintain the patents without expense to us, and also retain all rights of manufacture and sale for the Company in the countries mentioned."

And when recommending approval of the third and fourth (Ex. R. 4224, 4226, 4228, 4236):

> "Titan Company, Inc., assumes all costs incidental to the filing and prosecution of our applications under this license; pays all necessary maintenance fees during their life; and cannot permit abandonment without our approval. * * *
>
> "* * * we retain all rights of manufacture and sales for the Company under our foreign patents, without any filing or maintenance costs."

And when recommending approval of the fifth (Ex. R. 4241, 4244):

> "Titan Company, Inc. assumes all costs incidental to the filing and prosecution of our foreign applications under this license; pays all necessary maintenance fees during their life; and cannot permit abandonment without our approval. * * *
>
> "* * * Furthermore, the du Pont foreign applications and patents under which Titan Company Inc. will be licensed are of relatively minor importance, and we retain all rights of manufacture and sale for du Pont under our foreign patents without any filing or maintenance costs."

It is apparent, therefore, that whatever the pressure of Jebsen and National Lead, du Pont on its side succeeded in remaining clear of the conspiracy and in determining its own policy by reference to *patent considerations only,* in harmony with the anti-trust laws.

3. *Du Pont's Export Policy Maintained for Valid Business Reasons.* Du Pont adhered to the export policy which it had stated in 1933 it was then pursuing. This course of conduct reflected a number of economic, business and legal factors apart from the obvious fact that general economic conditions, particularly in Europe, during this period were not conducive to foreign trade (R. 1137-1141, Ex. R. 711, 1233, 1535).

Of major importance was the fact that du Pont's energies during this period were necessarily wholly devoted toward meeting United States domestic demands for titanium pigments. In spite of the fact that total production in this country increased more than tenfold from 1933 to 1944, this proved no more than necessary to meet the demand.

As the District Court found, du Pont "made frequent plant expansions for the manufacture of pure and composite TiO_2" (FF. 78, R. 290). Nonetheless, new uses and outlets for titanium pigments developed. Du Pont throughout the period following 1933 was faced with a continuing problem of constructing capacity sufficient to meet the demands of the United States market. Du Pont operating at full capacity never had surplus capacity available to permit allocation for export to Europe or other foreign countries even assuming that such exports would have been possible (Ex. R. 4397, 4398).

Mr. Daley who was directly responsible for du Pont's titanium pigment production testified "I was in production exclusively at the time and I remember that sales were ahead of capacity or were forecasting that they very soon would be and I was scrambling for a period of eight solid years. That is my vivid recollection" (R. 1163). Detailed charts introduced in evidence for the purpose of illustrating the relationship which existed in du Pont's manufacture between sales and capacity for both pure tianium oxide and composite pigments showed a constantly over-sold condition in spite of persistent and numerous substantial plant expansions (R. 1162, 1163).

Not only was capacity inadequate to provide a firm basis for a development of export sales, but it is significant that the entire European market has always accounted for substantially less production and sales of titanium pigments than the United States alone (R. 967, 968, 1146, 1147, Ex. R. 2623, 3786, 3787, 3814).

Furthermore, even if du Pont had had any export capacity, it would not have regarded Europe as an attractive potential market. European costs were below American

costs (Ex. R. 2024, 822, 1264), and this was recognized to be a most significant factor (Ex. R. 1422). Moreover, to sell titanium pigments in foreign markets, du Pont would have been required to set up a technically trained sales force which would be in constant communication with the customer's particular problems and thoroughly familiar with the needs and requirements of the particular trades served. This was because titanium pigments cannot be sold in neat packages for ready utilization of a wide consumer market. They must be individually sold for special uses and with regard to many technological manufacturing problems (R. 950, 1055, 1155, 1078, Ex. R. 4325, 4360).

Finally, but of major consequence in connection with the whole United States problem, was the consideration which necessarily had to be given to the strongly intrenched position of competitors manufacturing titanium pigments in the foreign markets. These European manufacturers, particularly in Great Britain, had not only the advantage which flowed from high protective tariffs (Ex. R. 2072, 1270, 753, 1230, 758, 766, 822, 3340, R. 949), but they had also many advantages over United States producers because of special arrangements for obtaining sulphuric acid or other raw materials, because of generous support from their respective governments by subsidy or otherwise, and because of the power which they obtained through various cartel arrangements which existed among these European manufacturers.

They also were in a position to assert their patents against du Pont exports. Prior to the cross-license agreement between du Pont and National Lead, for example, the major European manufacturers had obtained patent rights in foreign countries under the very basic and essential Jebsen and Blumenfeld patents (FF 33-34, R. 245-247).

Du Pont was manufacturing titanium pigments in the United States under the American Blumenfeld patents in infringement of the Jebsen United States patents (Ex. R. 1171). It had no rights under the foreign equivalents of these Jebsen or Blumenfeld patents (FF 34, R. 247, Ex. R. 1419). The result of this was that under the laws of all important foreign industrial countries, the principal foreign manufacturers as owners of these foreign patents were in a position to assert the patents as a bar to the importation of products made abroad under the same processes (R. 1143, 798, 801, 805). These laws are summarized in Appendix C.

In the light of the foregoing facts which the record indicates were well known and considered at the time in the industry, it is not surprising that du Pont failed to export; nor is it surprising that the District Judge accordingly refused to find an agreement by du Pont not to export implied from the course of conduct which it pursued—a course of conduct clearly prompted by sound and reasonable business considerations.

4. *The 1941 Amendment to the 1933 Patent Licensing Agreement Retained du Pont's Independence.* National Lead and du Pont amended Exhibit E by a written agreement dated as of January 1, 1941. The amendment changed the substance of the 1933 agreement so as to (1) specifically include extenders within the term "licensed field", (2) defer exchange of patent applications until six months after filing, and (3) eliminate exchange of technical information (Ex. R. 112).

In the Spring of 1940, as heretofore pointed out, du Pont had insisted upon eliminating its exchange of technical

information with National Lead; and the exchange had in fact ceased at that time. Du Pont then suggested that a new agreement be drafted to confirm this (Ex. R. 1929), as well as to take care of other points. In the Fall of 1940 the question of adjusting the 1933 agreement was referred by National Lead to Jebsen, who was then in Paris (Ex. R. 1948). Jebsen indicated very clearly that he preferred that the matter be handled in the form of an amendment rather than a new contract (Ex. R. 1953). He suggested that an amendment could be effected without consulting National Lead's European associates, and that this course of action was justified by the "international situation" (Ex. R. 1955). Jebsen then went on to point out why a more delicate question would be presented if an entirely new contract was drafted, indicating quite clearly his desire to avoid further discussions with I. G. Farbenindustrie and the foreign associates similar to those which had been brought about in 1933 because of the "drastic deviation" of the 1933 agreement from the fundamental "principles of" the 1920 agreement. Jebsen's letter noted in this connection that the raising of these questions anew would certainly be troublesome because "Du Pont will not be in a position to give more consideration than the last time" (Ex. R. 1956).

Whether these views were ever relayed to du Pont, the record does not indicate, but it is a fact that the matter was eventually handled in the form of an amendment (R. 73). There is no evidence that in connection with this amendment du Pont was asked to enter into any understanding or that it did in fact commit itself in any degree beyond the written terms of the instrument.

SPECIFICATION OF ASSIGNED ERRORS TO BE URGED

The following Assignments relate to the entire Part One of the Argument of this brief: I; II; III-(11); V-(2); VI; VII.

The following Assignments relate to the alleged connection between du Pont and the international cartel, and, therefore, are urged under Point I of Part One of this brief: III-(1), (2), (3), (4—except sub (5)), (7), (8), (9), (10); IV except (3) and (8); V-(1).

The following Assignments relate to the 1933 agreement and amended agreement, and to the competitive situation in the American domestic industry, and are, therefore, urged under Point II of Part One: III-sub(5) of (4), (5), (6), and that part of (7) which relates to the construction of the 1933 agreement; IV-(3) and (8).

Assignment II-(3) deals with paragraph 7 of the decree, and, therefore, covers the subject matter of Part Two of this brief, which deals only with the one sentence of paragraph 7 which (we submit) should be eliminated from the decree even if the decision below be affirmed on the merits against du Pont. The sentence in question orders du Pont to supply technical information to licensees.

SUMMARY OF ARGUMENT

The Sherman Act interdicts "every *contract, combination* in the form of trust or otherwise or *conspiracy*, in restraint of trade." Du Pont contends that it neither conspired, combined nor contracted in a manner prohibited by that Act. This point is discussed in Point I of Part One immediately following.

The District Court concluded that du Pont conspired and combined to restrain trade in violation of Section 1 (R. 306), but this conclusion cannot be sustained in view of the specific findings that du Pont made no promise or agreement, express or implied, either to join the cartel conspiracy and combination or to further its purposes and objects.

The District Court's decision is also open to the interpretation that in some manner du Pont combined with National Lead and its foreign associates through conduct which fell short of that from which agreement can be inferred but yet constituted combination. The suggestion that any proper basis exists for distinguishing a conspiracy from a combination under the Act is in itself novel and has not been previously advanced. Proof of combination, like proof of conspiracy, has traditionally been held to require proof of express or implied agreement.

Even if some such lesser conduct may establish participation in a combination under special circumstances, here du Pont followed a wholly reasonable course of conduct. Its actions resulted in no unlawful restraint but rather brought about the development of a competitive titanium pigment business in the United States.

Du Pont made no contract prohibited by the Sherman Act. Its non-exclusive patent cross-licensing agreement of 1933 with National Lead, which was not attacked by the government, was conducive to competition and wholly consistent with the decision of this Court in the *Cracking* case. We discuss below the validity of this agreement which was criticized by the District Court but not held illegal.

If the judgment of the District Court as to du Pont is not reversed on the merits, du Pont submits that there is

one provision of the decree which should be eliminated. That is the provision requiring disclosure of du Pont's existing and future technical information in the field of titanium pigments. The District Court did not have the legal authority to require the compulsory licensing of such technical information, and its order in this regard in any event constituted a serious abuse of discretion. This point can be very shortly argued, and we, therefore, defer it to the end of the brief (Part Two, *infra,* p. 109).

ARGUMENT

PART ONE

THE DECISION BELOW SHOULD BE REVERSED AS TO DU PONT

POINT I

DU PONT DID NOT BECOME A MEMBER OF THE INTERNATIONAL CARTEL

(A)

THE DISTRICT JUDGE FOUND THAT DU PONT DID NOT AGREE TO BECOME A MEMBER OF THE CARTEL. THE ABSENCE OF AGREEMENT IS FATAL AT LAW.

As far as the merits are concerned this appeal presents at the outset a clearly defined issue, namely, whether du Pont may be legally held to have joined the cartel conspiracy in view of the explicit findings that du Pont made no agreement, understanding or promise of any kind, express or implied.

An examination of the District Court's findings relating to du Pont's entry into the cartel conspiracy should be made in the light of the charges originally tendered by the government in its Complaint and the action taken by the Court on the evidence with respect thereto. In brief, the government's case disintegrated as far as du Pont was concerned. It charged du Pont with participation in the cartel conspiracy on the specifically stated theory that du Pont had by oral agreements subscribed to the principles of the Contract of 1920 and otherwise made explicit commitments

of an illegal character to National Lead. When the evidence was in it wholly failed to support the government's charges as to du Pont's participation. Without burdening this brief, we may in short space present by parallel columns below a comparison of the government's theory of the case, on the one hand, with the facts as established to the satisfaction of the District Judge on the other. The District Judge not only refused to find as requested by the government but actually on many crucial points made findings precisely opposite to the government's position; *cf. Hartford-Empire Company* v. *United States*, 323 U. S. 386 (1945), at pp. 403-406.

After the purchase of Commercial Pigments by Krebs in July 1931, du Pont "continued negotiations to reach a world-wide agreement" which would eliminate competition between the National Lead and Blumenfeld groups. (Govt's Proposed Finding 63, R. 104, see also Complaint, par. 53, R. 22).

After the purchase of Commercial Pigments by Krebs in July 1931, du Pont did not authorize participation in the "continued negotiations to reach a world-wide agreement" between the National Lead and Blumenfeld groups. (FF 71, R. 278).

National Lead's patents "were either not valid or could be avoided at a slight additional expense." Both du Pont and National Lead "agreed not to contest the validity of any of their patents." (Govt's Proposed Finding 64, R. 105).

Both du Pont and National Lead "in good faith claimed that each infringed certain of the other's titanium pigment patents and both in good faith denied such infringement claiming, among other things, that the patents alleged to be infringed were of doubtful validity." (FF 72, R. at 279).

Du Pont was willing to subscribe by "an oral understanding" to "the provisions of the Contract of 1920." (Complaint, par. 54; R. 23). By virtue of the 1920 agreement and oral understandings, du Pont "has in fact subscribed to said Contract of 1920." (Complaint, par. 61, R. 27).

For National Lead to license du Pont without the consent of National Lead's foreign associates it was necessary that du Pont "adhere to the principles of the 1920 agreement; such adherence du Pont refused." (Op., R. 214). Du Pont "did not subscribe to the 1920 agreement; the agreement it did sign in 1933, deviated sharply from the form and from the principles of the 1920 agreement." (Op., R. 213).

Rupprecht, on behalf of du Pont, orally agreed with Beschorman of National Lead that du Pont would not "export any titanium compounds outside of the United States except to South and Central America." (Complaint, par. 55, R. 24; see also Govt's Proposed Finding 66, R. 106).

Du Pont did not agree "that it would refrain from exporting titanium pigments * * *." (FF 73, R. at 288).

The 1933 agreement "restricted the sale of titanium pigments by DP to the United States, Central and South America." (Govt's Proposed Finding 67, R. 106-107).

The District Court refused to make this finding.

Du Pont "did not clearly repudiate" any obligation to the Blumenfeld group until after the execution of the 1933 agreement. (Govt's Proposed Finding 64, R. 105-106).

Before 1933 du Pont "disclaimed any obligation" to the Blumenfeld companies. (FF 88, R. 300).

Du Pont "orally agreed with Blumenfeld that it would not export into the territories of the Blumenfeld companies outside of the United States." (Govt's Proposed Finding 66, R. 106; see also Complaint, par. 65, R. 29-30).	Blumenfeld requested du Pont "not to export." Du Pont advised that it "would make no such agreement * * *." (FF 73, R. at 289).

The District Judge, in rejecting the government's contentions, adopted a very novel theory and relied upon a single circumstance which he isolated from other transactions of record in holding that du Pont joined the conspiracy and combination.

The opinion reflects the course of reasoning by which the District Judge reached the conclusion that du Pont should be held a member of the cartel conspiracy. Appendix B to this brief contains a very detailed and lengthy analysis of the District Judge's opinion. In ordinary circumstances we would have refrained from burdening the Court with such material. The situation confronting du Pont in this case, however, is unique. Not only was the opinion submitted before the findings were finally framed, but in the conferences with the District Judge counsel were instructed to assist the Judge to conform the findings to the opinion for the reason that the opinion represented his considered judgment on the merits. Since the District Judge's reasoning in the last analysis presents essentially the application of legal principles which we here contest, a detailed review of the manner in which such principles were applied to the facts will, we believe, help this Court in reaching a determination of du Pont's appeal on the merits.

It will be recalled from the Statement of the Facts (pp. 29 to 39, *supra*) that Rupprecht, du Pont's represen-

tative during the course of negotiation of the 1933 non-exclusive patent cross-licensing agreement, was shown by Beschorman a copy of the National Lead letter of July 12, 1933 to I.G. Farbenindustrie. This occurred before the letter was mailed. The natural question arose, what did Rupprecht say or do under these circumstances. Rupprecht had died by the time of trial and Beschorman was too ill to testify. No one else was present when Beschorman showed Rupprecht the National Lead letter to I.G. Farbenindustrie. Consequently no oral testimony could be presented either by the government or by the defendants bearing on this question. There was also no written memoranda or other documentary evidence produced covering the conversation which must have taken place. The record merely establishes the simple fact that Rupprecht was shown the letter before it was mailed.

The District Judge found on these facts as follows (FF 73, R. at 287-288):

> "There is no evidence that Rupprecht remonstrated against the sending of Beschorman's letter to IG. Krebs and DP through Rupprecht acquiesced in and ratified the assurance made by Beschorman to IG as to territorial delimitations of the titanium pigment business. In acquiescing in such assurance that DP would not manufacture in or sell in TG's territory, DP was not making a promise; it was doing no more than giving expression to its then existing policy not to manufacture or sell in Germany and other TG territory. * * *
>
> "DP did not agree with TP or NL that it would refrain from exporting titanium pigments into TG's territory; but it assured TP and NL that, as a practical matter, such exports would not take place.

"DP did not agree with TP or NL that it would grant NL's foreign associates exclusive licenses under DP's foreign patents; but it gave assurances that the practical effect of its conduct would produce substantially identical results as if it did so agree."

These findings, which, as the District Judge indicates in his opinion, form the basis for his conclusion after a review of all the evidence that du Pont became a special member of the conspiracy and combination, boil down to a simple statement that du Pont, on the basis of its then existing export policy, assured National Lead that as a practical matter exports would not take place.

There is no doubt as to what the District Court meant by the term "assurance". The word "assurance" had a very definite meaning in the Judge's mind. "Assurance" was chosen deliberately to express his finding that no agreement, express or implied, between du Pont and National Lead or National Lead's foreign associates could be found on the facts. The Judge used the word in its connotation of "a declaration tending to inspire confidence"[18] and not as signifying an obligation or promise. This is made clear by his finding that in acquiescing in such assurance du Pont "was not making a promise; it was doing no more than giving expression to its then existing policy not to manufacture or sell in Germany and other TG territory" (FF 73, R. at 287-288, Op. R. 216). It is not without significance that the government sought again and again in its proposed findings (Govt's Proposed Findings 66, 68, R. 106, 107) and before the Judge in conferences on the Findings to have the word "assurance" changed to agreement

[18]Webster's International Dictionary.

or promise, but he declined.[19] And in order that there could be no doubt as to his position, the Judge expressly found that du Pont did not agree that it would refrain from exporting or that it would give exclusive licenses,—findings which the government has not challenged and by which it must be bound.

The foregoing analysis of the findings demonstrates that the District Judge held that du Pont's mere unilateral statements with respect to its existing business policy were sufficient to hold it had joined the cartel conspiracy or combination.

The issue of law thus presented is therefore:

> Can the anti-trust laws be violated by a statement on the part of one company to a competitor that it is its existing business policy not to sell in some foreign territory when it is admitted that no agreement or commitment of any sort not to change the policy the next day was expressed or can be implied?

Du Pont contends that the District Court erroneously applied the law of conspiracy to the facts as found and the case against du Pont must accordingly be dismissed. To accept the District Court's affirmative answer to this proposition, which was the sole basis upon which the District Court, after reviewing all the evidence, found du Pont to have participated in the cartel, would represent a substantial step in the direction of the civil law doctrine of crime by

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[19] That the Judge meant that an agreement did not exist, however informal or from whatever circumstances deduced or inferred is made doubly clear by his refusal to accede to the government's request to amend the findings by inserting the word "formally" or "in writing" in the phrase "du Pont did not agree."

association and a definite departure from long and well established precedent.

From the genesis of the law of conspiracy down to this case the one essential and necessary element of conspiracy has been the *fact* of an agreement, express or implied, between the conspirators. The earliest definition of conspiracy recorded in Anglo-American law, contained in the Third Ordinance of Conspirators which was passed in 1304, is:

> "Conspirators be they that do confeder or bind themselves by Oath, Covenant, or other Alliance, that every of them shall aid and support the Enterprise of each other falsely and maliciously to indict, or cause to be indicted (or falsely to acquit people) or falsely to move or maintain pleas;" etc.[20]

Gradually, by statute and decision, the offense was broadened to embrace other objectives, but the requirement of agreement has never changed. However proved, whether directly or indirectly, and from whatever circumstances the inference was permitted to be drawn, and whether the agreement was formal or informal or express or tacit, the fact of agreement remained a necessary element of the offense.[21]

The essential nature of a conspiracy under the Sherman Act,[22] and under other Federal conspiracy laws,[23] remains the same as it was at common law.

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[20]See Sayre, *Criminal Conspiracy* (1922) 35 Harv. L. Rev. 393, 396.

[21]Wright, *The Law of Criminal Conspiracies* (London, 1873), p. 69 *et seq.*

[22]*Nash* v. *United States*, 229 U. S. 373 (1913).

[23]*E.g.*, *Section* 37 of the Criminal Code. See *Bannon and Mulkey* v. *United States*, 156 U. S. 464, 468, (1895); *Pettibone* v. *United States*, 148 U. S. 197, 203 (1893).

This Court has times without number reiterated the proposition that "a conspiracy is constituted by an agreement" that "a conspiracy is a partnership in criminal purpose" [24] and that "the gist of the offense of conspiracy * * * is agreement among conspirators".[25] Occasionally, the term "concert of action" has been used, but always as meaning either action taken together pursuant to agreement or action from which the fact of agreement can be reasonably inferred.[26]

The cases have emphasized again and again the necessity for the government to prove at least collective planning or federating or combining for a criminal purpose. The government must show that the parties worked together understandingly with a single design for the accomplishment of a common unlawful purpose.[27] Whatever the definition of "concert of action", it has not been stretched

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[24] *United States* v. *Kissel*, 218 U. S. 601, 608 (1910).

[25] *Braverman* v. *United States*, 317 U. S. 49, 53 (1942), *United States* v. *Falcone*, 311 U. S. 205, 210 (1940). To the same effect see, *e.g.*, *Direct Sales Co.* v. *United States*, 319 U. S. 703 (1943); *Morrison* v. *California*, 291 U. S. 82 (1934); *American Column & Lumber Company* v. *United States*, 257 U. S. 377 (1921); *United States* v. *Andolschek*, 142 F. (2d) 503 (C. C. A. 2d, 1944); *Bacon* v. *United States*, 127 F. (2d) 985 (C. C. A. 10th, 1942); *Hammer* v. *United States*, 134 F. (2d) 592 (C. C. A. 5th, 1943); *Schmeller* v. *United States*, 143 F. (2d) 544 (C. C. A. 6th, 1944).

[26] *E.g.*, *Direct Sales Co.* v. *United States*, 319 U. S. 703 (1943); *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208 (1939); *Eastern States Retail Lumber Dealers' Ass'n.* v. *United States*, 234 U. S. 600 (1914).

[27] *Braverman* v. *United States*, 317 U. S. 49, 53 (1942); *United States* v. *Falcone*, 311 U. S. 205, 210 (1940); *Gebardi* v. *United States*, 287 U. S. 112, 121 (1932); *Wong Tai* v. *United States*, 273 U. S. 77, 81 (1927); *Frohwerk* v. *United States*, 249 U. S. 204, 209 (1919); *Williamson* v. *United States*, 207 U. S.

to embrace du Pont's wary arm's-length dealings with the combination in this case.[28] Indeed the extension of the law of conspiracy by the courts and the abuse of that law by the prosecuting arm of government has for some time been a matter of grave concern to those interested in the maintenance and development of an equitable system of law according with Anglo-Saxon traditions of justice.[29] We believe that this case presents a clear and dangerous extension of the definition of conspiracy, the seriousness and importance of which transcends this cause and the purely private interests of this appellant and should not be obscured by the fact that this litigation happens to be civil in form. Indeed, a criminal indictment involving precisely the same transactions and allegations is pending against National Lead and du Pont and four individual defendants in the Southern District of New York.

The doctrine that agreement is an essential element in proving conspiracy is so well established and rooted in common law precedents that further discussion would appear unnecessary. Three recent decisions of this Court; namely, *Interstate Circuit, Inc.* v. *United States*, 306 U. S. 208 (1939); *United States* v. *Masonite Corporation*,

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425, 44[illegible]908); *Bannon and Mulkey* v. *United States*, 156 U. S. 464, 468 (1895); *Dealy* v. *United States*, 152 U. S. 539, 547 (1894); *Pettibone* v. *United States*, 148 U. S. 197, 202 (1893); *United States* v. *Britton*, 108 U. S. 199, 204 (1883); *United States* v. *Hirsch*, 100 U. S. 33, 34 (1879).

[28] *E.g.*, *United States* v. *Falcone*, 311 U. S. 205 (1940); *American Column & Lumber Company* v. *United States*, 257 U. S. 377 (1921); *Eastern States Retail Lumber Dealers' Ass'n.* v. *United States*, 234 U. S. 600 (1914).

[29] *E.g.*, see Recommendations of Senior Circuit Judges, Report of the Attorney General (1925), pp. 5-6. See also *Kotteakos* v. *United States*, 66 S. Ct. 1239 (1946).

316 U. S. 265 (1942); and *Direct Sales Co.* v. *United States,* 319 U. S. 703 (1943) may be urged by the government; but analysis of these decisions shows unequivocally that the fundamental rule has not been changed. The *Direct Sales* case, the most recent in point of time, clearly bears out our position, for there this Court recognized that the fact of agreement is "crucial", underlining this by noting that where agreement must be inferred from the facts or a course of dealing "more than suspicion, more than knowledge, acquiescence, carelessness, indifference (or) lack of concern is necessary". The test was made explicit by the Court's statement that there must be established "informed and interested cooperation, stimulation and instigation" and the parties must join "both mind and hand" to the furtherance of the conspiracy. In the *Interstate Circuit* case the existence of an agreement was inferred, and in the *Masonite* case facts were ample to support a finding of actual unlawful agreement. However, *dicta* from the *Interstate Circuit* case, repeated subsequently in the *Masonite* case, require analysis. The Court, in the *Interstate Circuit* case, said after sustaining the trial court's finding of agreement:

> "* * * agreement for the imposition of the restrictions upon subsequent-run exhibitors was not a prerequisite to an unlawful conspiracy. It was enough that, knowing that concerted action was contemplated and invited, the distributors gave their adherence to the scheme and participated in it. Each distributor was advised that the others were asked to participate; each knew that cooperation was essential to successful operation of the plan. They knew that the plan, if carried out, would result in a restraint of commerce, which, we will presently

point out, was unreasonable within the meaning of the Sherman Act, and knowing it, all participated in the plan. The evidence is persuasive that each distributor early became aware that the others had joined. With that knowledge they renewed the arrangement and carried it into effect for the two successive years.

"It is elementary that an unlawful conspiracy may be and often is formed without simultaneous action or agreement on the part of the conspirators. *Schenck* v. *United States*, 253 F. 212, 213, aff'd, 249 U. S. 47; *Levey* v. *United States*, 92 F. 2d 688, 691. Acceptance by competitors, without previous agreement, of an invitation to participate in a plan, the necessary consequence of which, if carried out, is restraint of interstate commerce, is sufficient to establish an unlawful conspiracy under the Sherman Act. *Eastern States Lumber Assn.* v. *United States*, 234 U. S. 600; *Lawlor* v. *Loewe*, 235 U. S. 522, 534; *American Column Co.* v. *United States*, 257 U. S. 377; *United States* v. *American Linseed Oil Co.*, 262 U. S. 371." (pp. 226-7)

We do not believe it can reasonably be said that the language was intended to overrule the long established precedent. Considering that such language as "gave their adherence to the scheme and participated in it", "participated in the plan", and "acceptance * * * of an invitation to participate in the plan" is used, there can be little doubt but that this Court was simply underscoring the well recognized proposition that agreement can be inferred from a course of conduct or concert of action and that a prior understanding to participate was not necessary. From the participation itself, *i.e.*, the subsequent common sharing with others, the agreement to participate in an unlawful

conspiracy could be inferred. *Eastern States Retail Lumber Dealers' Ass'n.* v. *United States,* 234 U. S. 600 (1914), and other decisions relied on by the Court in the *Interstate* case simply stand for the well established rule that unlawful agreements may be implied from conduct and thus give further support to the view taken here.

The very recent decision of this Court in *American Tobacco Co.* v. *United States,* 66 S. Ct. 1125 (1946), discusses the elements of conspiracy in a Sherman Act proceeding, and again emphasizes the traditional and well established view that a conspiracy must be based upon agreement, express or implied. The Court pointed out that while no formal agreement is necessary, proof of understanding or meeting of the minds is a prerequisite. The Court said (p. 1139):

> "* * * No formal agreement is necessary to constitute an unlawful conspiracy. Often crimes are a matter of inference deduced from the acts of the person accused and done in pursuance of a criminal purpose. Where the conspiracy is proved, as here, from the evidence of the action taken in concert by the parties to it, it is all the more convincing proof of an intent to exercise the power of exclusion acquired through that conspiracy. The essential combination or conspiracy in violation of the Sherman Act may be found in a course of dealings or other circumstances as well as in any exchange of words. United States v. Schrader's Son, 252 U. S. 85, 40 S. Ct. 251, 64 L. Ed. 471. Where the circumstances are such as to warrant a jury in finding that the conspirators had a unity of purpose of a common design and understanding, or a meeting of minds in an unlawful arrangement, the conclusion that a conspiracy is established is justified."

See, also, *Pinkerton* v. *United States*, 66 S. Ct. 1180 (1946).

Unlawful agreement has not been established even by inference here, for the District Judge has sought to tie du Pont to the unlawful undertaking by reliance upon du Pont's mere statement of its established policy, a statement made without even moral commitment to act consistently therewith concerning a policy firmly based on reasonable business considerations. It was urged on the trial that agreement should be inferred from the events in 1933 or that it should be inferred from subsequent conduct, but the Judge rejected these promptings after searching, painstaking study of the facts which adequately explained the action taken or not showing that its conduct was in many respects divergent from the cartel conspiracy pattern, that there were business facts which adequately explained the action taken or not taken by du Pont, that there was no change in du Pont's conduct coincident with the development of its relations with National Lead, and that it had no stake in the venture or motive for furthering the objects of the conspiracy.

(B)

ASSUMING *ARGUENDO* THAT AGREEMENT IS NOT NECESSARY TO VIOLATION OF THE SHERMAN ACT, THEN WHAT DU PONT SAID OR DID MUST BE MEASURED BY THE TEST OF REASONABLENESS. CONFRONTED WITH THE NECESSITY OF OBTAINING A LICENSE UNDER THE CARTEL PATENTS, IT WAS CERTAINLY REASONABLE FOR DU PONT MERELY TO STATE THAT IT WAS NOT ITS THEN BUSINESS POLICY TO SEEK EXPORT TRADE, ACCOMPANIED BY A REFUSAL TO BIND ITSELF FOR THE FUTURE. THIS IS ALL THAT THE JUDGE FOUND THAT DU PONT DID.

This Court will appreciate that this point (B) is an alternative to point (A). If we are right that the absence of agreement is fatal to the government's case under the anti-trust laws, then this point (B) is unnecessary.

We proceed in this point on the assumption that the District Judge was right in determining as a fact that Mr. Rupprecht on behalf of du Pont in 1933, in order to obtain the license under the cartel patents, did state to the cartel that it was not then the policy of du Pont to export to Europe, and further that the Judge was right in his determination of law that a statement by du Pont might bring it within the condemnation of the Sherman Act, even though it made no agreement. It does not follow that this particular statement was enough to bring du Pont within the condemnation of the Act.

We submit that the Judge committed error of law in not examining the question whether the statement in itself was a *reasonable* thing for du Pont to do, as a condition to obtaining the license and entering into competition with the cartel. And we submit further that it is so obviously

reasonable that the Judge could not as a matter of discretion hold to the contrary.

In plain words, we submit that it is all out of proportion to give a decision against an American company under the anti-trust laws when admittedly all that it has done is to have succeeded (14 years ago) in obtaining a license under the cartelized patents and thereby developing a competitive industry in the United States, and in doing so at the very low and ultra-reasonable price of making a completely informal statement that it was then its policy not to export abroad, while at the same time refusing to make any commitment or agreement that it would continue to be its policy not to export.

As du Pont's conduct was wholly reasonable, and indeed even beneficial to American trade and commerce, it comes squarely within the general philosophy underlying the decisions of this Court in enunciating and establishing the "Rule of Reason". Indeed, those cases govern this case *a fortiori*, for they were cases of actual restrictive agreements. If agreements in and of themselves restrictive may be held nonetheless lawful, certainly independent conduct from which no agreement can be implied can equally be tested by concepts of reasonableness.

In referring to the rule of reason, we wish to emphasize that we are not advancing the argument which was made below by National Lead, to the effect that cartel agreements may nonetheless be found consistent with the Sherman Act where the restraints were reasonable, nor are we referring to the type of argument which might be made by Zirconium under the rule of reason doctrine to the effect that it had been forced to accept illegal restraints. Du Pont neither agreed to, nor was forced to accept, restraints.

Du Pont had the strongest type of reasonable justification for anything it did in 1933, in that otherwise it could not have then entered the titanium field on a competitive basis at all. The du Pont argument and the Judge's response to it are set out in the opinion itself (R. 218-219):

> "At this point, DP advances the argument that it had no choice but to do business with the cartel unless it was content to stay out of the titanium field. To put it in the words of DP's counsel,
>
> > 'We respectfully submit in conclusion that it cannot be the law of the United States that it is the function of the Courts themselves to impose that form of restraint of competition which must resist from a ruling that whenever a European company has a monopoly in its own country (and practically all of them do), and then has a relation in the nature of a common enterprise with some American company, it becomes the duty of all other American companies to renounce and forego access to the inventions and developments controlled by those foreign companies, and to leave them as the exclusive property of its American competitor, the partner of those foreign companies'.
>
> "Perhaps, the answer is that DP, having discovered the conspiracy, should have asked the Attorney General to break it up. Confessedly, the chances of DP getting NL's patents and know-how after such a hostile act would be, to say the least, dubious. But in any event the courts may not validate unlawful conduct because in a particular instance there may be social losses involved in enforcing the law. The paradox which DP discovers, even if it were a genuine one, would be of interest to Congress, not to the courts. But the paradox

> is not genuine. The conflict is a specious one. Judicial intervention to break up a combination in restraint of trade is not in itself a restraint of trade, although for a time the established channels of commerce may be disarranged. To prohibit adherence to conspiratorial trade restraints hampers trade in about the same way that the prohibition against the circulation of counterfeit money hampers it. It may prevent the consummation of a particular transaction but in the long run it frees business from private regimentation and secures it against those who would trammel it."

It will be apparent that the Judge was not here disputing the validity of the facts upon which the du Pont submission was based. He accepted the facts, but differed with the conclusion of law. The effect of the Judge's holding was:

> Whenever a European company has a monopoly in its own country (and practically all of them do), and then has a relation in the nature of a common enterprise with some American company, it becomes the duty of all other American companies to renounce and forego access to the inventions and developments controlled by those foreign companies, and to leave them as the exclusive property of their American competitor who is the partner of those foreign companies, notwithstanding that there may be social losses involved, and even although for a time the established channels of commerce may be disarranged. American competitive trade must await judicial intervention at suit by the Attorney General to break the cartel up even though the American company might be able in the meantime to wheedle patents from the cartel without subscribing to its principles

Would anything be more unrealistic, or more satisfying to international cartelists, than this doctrine that potential competitors must leave them alone in their cartel until the lengthy judicial process under the anti-trust laws has run its course?

We do not exaggerate. The scheme of the cartel in this case was to effect its purposes by cornering patents and technical information. To compete effectively with the cartel it was necessary to have licenses under its patents and technical information during the initial stages of the art. Unless a concern was willing to subject itself to infringement action or to accept a limited role in the industry by proceeding with the manufacture of certain types of titanium pigments which could be made, albeit uneconomically, independent of the cartel patents, it was impossible to launch an independent competitive enterprise in this field without making arrangements with the cartel to obtain access to its patents and technical information.

The Judge's conception that admitted "social losses" must be incurred arose from a failure to observe that the rule of reason as applied to restraint of trade means that that term is so to be construed as to avoid the "social losses" involved in an arbitrary construction. The rule of reason is to avoid social loss, not to compel it.

In arguing to the contrary, the Judge sought an analogy. He said that the hampering of trade that would have resulted if du Pont had renounced the license and access to the technical information would have operated

> "in about the same way that the prohibition against the circulation of counterfeit money hampers it".

In other words, his conception was that to trade with a violator of the anti-trust laws is in the same class as to

circulate counterfeit money. This is fundamental error. The question of what is a restraint of trade is a question of what is or is not really burdensome or beneficial to trade. It is a comparative question. Counterfeiting of money is an absolute felony. There is no such thing as reasonably counterfeiting money.

From the famous *Standard Oil* and *Tobacco* cases down to today, whatever the differing views of members of this Court as to the degree of latitude in the conduct of trade, it has invariably held that, except for a limited class of well recognized, so-called *per se* violations, questions under the anti-trust laws must be determined in the light of an inquiry as to the actual circumstances of the particular case, the ultimate inquiry being as to whether the conduct was reasonable under all of those circumstances. This is not the sort of rule that applies to counterfeiting money.

The case as to du Pont presents the question as to what rule is to apply to the conduct of a party *when confronted with the power of a cartel and in competition with that power.*

These were the essential features of the problem before du Pont prior to its contract with National Lead:

Du Pont was engaged in the manufacture of lithopone and other ingredients for the production of white paint and related products. A new product (titanium pigments) had, however, been developed over the preceding decade to a point at which it had been apparent that it would be more efficient and more economical than lithopone or any of the older products. It had acquired from Commercial Pigments a titanium pigment operation which its Legal Department had concluded infringed both National Lead

and Titan, Inc.'s patents. Certain necessary and dominating patents covering titanium pigments and its manufacture, and the principal reservoir of technical information in regard to the new art, resided in a world cartel, carefully erected on the basis of deliberately restrictive contracts dividing production and markets.

The cartel embraced the great I. G. Farbenindustrie in Germany, all of the principal chemical manufacturers in Great Britain, and National Lead in the United States, and was bound in Europe by cooperative and pooling agreements with the companies [the Blumenfeld group], notably in France, Italy and Czechoslovakia, which had rights under the second most important group of patents. Du Pont had purchased the company in the United States which had rights in the United States only to the use of this second group of patents, but it had no rights under the cartel's patents and no knowledge of its technical processes.

Du Pont and National Lead each "in good faith claimed" that the other infringed its patents (FF 72, R. at 279); and du Pont was accordingly "manifestly eager to obtain access to National Lead's patents and skill" (R. 213). The record amply supports these findings, as it contains voluminous intra-company correspondence both from the National Lead and the du Pont files as to the number of existing patents, particularly of the large number and strength of those owned or controlled by National Lead, and also of the importance of the technical information, particularly that in the possession of National Lead.

It was not seriously open to du Pont to contest National Lead's patents. At that time the decisions of this Court and of the Third Circuit Court of Appeals, of which circuit du Pont was an inhabitant, were strongly favoring patents.

This was before the recent radical change in the attitude of the Federal Courts towards patents. Circuit Judge Evans (of the Seventh Circuit) has made an interesting study (Journal of the Patent Office Society, April, 1944, Vol. XXVI, No. 4, p. 233, particularly the chart at pp. 254-255) from which it appears, for example, that in the Third Circuit there has been a remarkable change thus reflected:

	Decisions during 12-month period 1935-6 (37 cases)	1942-3 (28 cases)
Patents held valid and infringed.........	Over 50%	Well under 10%
Patents held invalid	Under 35%	About 75%

In short, even several years after the time of the patent controversy between National Lead and du Pont, the fear of infringing a patent had substantial justification.

Business and economic realities prevented du Pont from undertaking deliberate infringement of a patent structure such as was then controlled by National Lead.

The recognition by the courts of the importance of patents had also been strengthened and clarified, so far as the anti-trust laws were concerned, by the then recent decision of this Court in the *Cracking* case, *Standard Oil Co.* (*Indiana*) v. *United States*, 283 U. S. 163 (1931), deciding that in cases of *bona fide* patent conflict (such as the Judge expressly held this case to be) cross-licensing agreements, even between major companies already established in the particular industry, are not illegal. The *Cracking* case governed the titanium situation *a fortiori* because du Pont was not yet really established in the titanium industry. And the Judge expressly found in this case that

the 1933 contract was carefully drafted in the light of this Court's decision in the *Cracking* case (R. 214).

What were the economic conditions prevailing at the time? Europe was, at least temporarily (and, of course, it later proved that it was permanently), closed as a practical matter to American exports of this character. In Great Britain the value of the pound sterling had been reduced by governmental action by 40%, and exports of American products (except in the case of necessities meeting no British competition) had been rendered impossible. In Germany, Hitler had come into power, and although the future was not foreseen, it was universally recognized that his policy would at least be strongly nationalist and would support German industry.

The United States was in the very depths of economic depression and on the threshold of that period of governmentally favored cooperation within industry which was principally embodied in NRA. There was ample scope and need for development of capacity by du Pont to supply the domestic market, if only it could obtain a license so as to be free of infringement of National Lead's patents.

At this point, and against this background, National Lead told du Pont that before it could sign the cross-license agreement it must overcome the insistence of the I. G. Farbenindustrie in Germany that du Pont agree to the cartel principles,—division of territory, restriction on customers, etc. Du Pont undertook to obtain the cartel controlled patents of National Lead and thus achieve a position where it could compete commercially in both the fields of pure and composite titanium pigments. It resolutely refused to join the cartel, yet urged upon National Lead that National Lead should in turn do "a selling job" on its foreign asso-

ciates of such a character as to wheedle or cajole out of them the consent that they were refusing to give. To accomplish this, in turn, there were two alternatives open to du Pont. It might have given a promise, with its tongue in its cheek, intending to break it. But this it did not do and refused to do because it recognized and stated that such conduct would violate the Sherman Act (FF 73, R. at 287-289). All that was left for it to do was to try to reach the result by making the statement of a simple fact: "It is not at this moment our policy to engage in export trade". If the Germans would swallow that statement of fact, unaccompanied by any promise for the future, National Lead could give the license, and du Pont could successfully compete in the business.

Du Pont succeeded in avoiding any territorial commitments. What really accomplished it was that National Lead in turn was realizing that du Pont might be the source of important inventions and technical improvements, and was anxious to obtain licenses under those inventions (even if they had to be non-exclusive) and knowledge of that information. National Lead, therefore, undertook to do the selling job on the Germans and succeeded.

Du Pont's conduct was not such as to create any restraint prohibited by the Sherman Act. The District Judge placed undue emphasis upon the solidifying of du Pont's export policy which he apparently felt resulted from its continued reiteration. He overlooked the beneficial effect of du Pont's conduct upon titanium pigment competition in the United States, the reasonableness of du Pont's actions and the numerous business factors which made du Pont's adherence to its independent export policy desirable (see pp. 43 to 46, *supra*).

Du Pont accomplished what no other company entering the titanium field in the entire world was able to accomplish, viz. to obtain a non-exclusive license under the patent rights of a member of the cartel and have access to its technical information, without subscribing to restrictive agreements to which the rules of the cartel required it to subscribe. In other words, du Pont created in this country what did not exist in any other country in the world, and what did not exist in this country until du Pont succeeded in creating it—a competitive situation in the industry. Under the special facts of this case, we submit, the question that the Judge should have posed for himself under the rule of reason was this:

> Measuring the advantage to du Pont and to U. S. consumers of its obtaining immunity from suit under the patents of National Lead and access to the technical information of National Lead, upon the basis of which it might enter into competition with National Lead, *was it reasonable* for du Pont as a price therefor to state (but simultaneously to refuse to commit itself as to the future) to National Lead its then existing business policy not to manufacture or sell in Germany and other Titangesellschaft territory?

We respectfully submit that the answer to this question ought to have been unequivocally: "Yes".

We say with confidence that there has never been a case in which it has been held unreasonable for a defendant to give such an expression as to his existing trading intention, when that statement was necessary to obtain a license, and certainly not where the license was non-exclusive, and above all not where the license was necessary to create a

new competitive industry. All of the prior decisions under the rule of reason involve not mere statements of fact but actual promises by the party in question to restrict his own activities. Ours is a case in which the Judge found that the party in question refused to make any promise or agreement. Ours is thus an extreme case in favor of the defendant.

The cases have arisen only where the statement of intention amounted under all of the circumstances of the case to a promise and agreement; but that in itself has not constituted illegality. What the Court has had to go on to decide in each case, has been whether the promise and agreement was nonetheless a reasonable one, all circumstances considered. Here we do not even reach the question, for the trial court has found as a fact that no promise was given and that the statement was "no more than" a statement.

The governing rule of interpretation was really made necessary by the nature of the statute to be interpreted, which was itself the governing law of American trade and commerce. That rule was essentially the rule of the public welfare, or as it has sometimes been called, the rule of reason.

Circuit Judge, later Chief Justice, Taft in *United States v. Addyston Pipe & Steel Company*, 85 Fed. 271 (1898) (with the concurrence of Justice Harlan and Judge, later Justice, Lurton), in his classic opinion summarizing the status of the law of restraint of trade at common law as it was brought into the Sherman Act by the use of the word "restraint", explained that promises and agreements which were themselves restraints of trade might be defended in cases in which they were given as ancillary to

a larger contract, provided that they were necessary to the obtaining of the contract.[80]

As late as May 1940, *after* du Pont had entirely terminated even the exchange of technical information, Mr. Justice Stone was repeating and reaffirming the principles of the *Addyston* case, *Apex Hosiery Co.* v. *Leader,* 310 U. S. 469, 498 (1940). The dissent in that case threw no doubt on the validity of Mr. Justice Stone's review of that branch of the law. His review of the common law, of its adoption by this Court as governing the Sherman Act, of its application in the *Standard Oil* and *Tobacco* and numerous other cases, will be found in 310 U. S. at 494-501. He first pointed out that the phrase "restraint of trade * * * had a well understood meaning at common law" (494-5); then that:

> "A second significant circumstance is that this Court has never applied the Sherman Act in any case, whether or not involving labor organizations or activities, unless the Court was of opinion that there was some form of restraint upon commercial competition in the marketing of goods or services * * *" (495);

he then defined the restraints which were typically illegal *per se*:

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[80] No one has suggested that the principles of the *Addyston* case are no longer law. It certainly was not a decision of judges predisposed against the government in anti-trust cases. Throughout his distinguished career on the bench of this Court, the one branch of the law upon which Chief Justice Taft was most firm, even to the point of dissents from various decisions in favor of defendants, was the law of restraint of trade. And Mr. Justice Harlan's similar firmness in upholding the laws against restraint of trade was signally evidenced by his lone dissent from the discussion by Chief Justice White in the *Standard Oil* and *Tobacco* cases, 221 U. S. 1, 82, and 106, 189 (1911).

> "They were contracts for the restriction or suppression of competition in the market, agreements to fix prices, divide marketing territories, apportion customers, restrict production and the like practices, which tend to raise prices or otherwise take from buyers or consumers the advantages which accrue to them from free competition in the market" (497);

then reviewed the *Addyston* case (498) and the *Standard Oil* and *Tobacco* cases (499-500), obviously reaffirming their holdings; then summarized the position:

> "In the cases considered by this Court since the *Standard Oil* case in 1911 some form of restraint of commercial competition has been the *sine qua non* to the condemnation of contracts, combinations or conspiracies under the Sherman Act, and in general restraints upon competition have been condemned only when their purpose or effect was to raise or fix the market price. * * * Restraints on competition or on the course of trade in the merchandising of articles moving in interstate commerce is not enough, unless the restraint is shown to have or is intended to have an effect upon prices in the market or otherwise to deprive purchasers or consumers of the advantages which they derive from free competition" (500-1).

It may be helpful if we very briefly review a few of the intervening cases that marked the steady path of this Court from its affirmance of the decision of Judge Taft in the *Addyston* case, 175 U. S. 211, down to its decision in the *Apex* case, 310 U. S. 469.

Chief Justice White made the classic expositions of the subject in the *Standard Oil* and *Tobacco* cases, 221 U. S. 1 and 106 (1911). Perhaps the nub of his analysis is in the following, at p. 180:

"* * * the duty to interpret which inevitably arose from the general character of the term restraint of trade required that the words restraint of trade should be given a meaning which would not destroy *the individual right to contract and render* difficult if not impossible any movement of trade in the channels of interstate commerce—the free movement of which it was the purpose of the statute to protect".

In our case the individual right to contract was used for the limited and praiseworthy purpose of obtaining non-exclusive rights to enable the contractor actually to increase competition and thereby to increase the free movement of trade which it was the purpose of the statute to protect. Had du Pont refrained from entering into the agreement, the statute would have at least had the effect of rendering difficult, and it would very likely have rendered impossible, the competition which du Pont has developed.

A few years later the duty fell upon Mr. Justice Holmes of restating the rule on behalf of this Court, and he did so in language that has since been frequently quoted.[31] *Nash v. United States,* 229 U. S. 373, 376 (1913):

"Those cases [*Standard Oil and Tobacco*] may be taken to have established that only such contracts and combinations are within the Act as, by reason of intent or the inherent nature of the contemplated acts, prejudice the public interests by unduly restricting competition or unduly obstructing the course of trade".

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[31]For example, in the *Apex Hosiery* case, 310 U. S. 469, at 501, footnote 22, Mr. Justice Stone re-quoted this phrase from Chief Justice Hughes' earlier quotation of it in *Appalachian Coals* v. *United States,* 288 U. S. 344, 360 (1933).

It will be observed how fundamental was the learned District Judge's error in supposing that this law is not concerned with whether its enforcement causes "social losses". The essential question is whether there is "prejudice" to "the public interests". The measure is not an absolute one, but a comparative one—whether what has occurred has been "undue". There is no such thing as "unduly" counterfeiting money.

The turn of Mr. Justice Brandeis to reassert the rule of reason on behalf of this Court came in *Chicago Board of Trade* v. *United States,* 246 U. S. 231 (1918), reversing the decision below in favor of the government. This was an extreme case, as the Chicago Board of Trade actually agreed upon limited hours of business and upon the price that should govern between sessions. Mr. Justice Brandeis explained at 238:

> "Every agreement concerning trade, every regulation of trade, restrains. To bind, to restrain, is of their very essence. The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts. This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences."

Another strong case was before this Court in *National Association of Window Glass Manufacturers* v. *United States,* 263 U. S. 403 (1923). The handblown window glass manufacturers and the trades union had actually agreed upon limited periods of work, thus restraining themselves in a vital respect in order to meet the competition of the machineblown manufactures. A scale of wages was issued to one group of factories from September to January and to a second group from January to June, with the intent and necessary effect of shutting down the first group from January to September and the second group from June to January. It is not surprising that the lower court found the scheme inherently illegal. Once again, however, the Supreme Court had to point out that this missed the significance of the rule of reason. Mr. Justice Holmes was again the spokesman for the Court, in explaining that:

> "To determine its legality requires a consideration of the particular facts. *Board of Trade of Chicago* v. *United States,* 246 U. S. 231, 238" (411-12).

The first occasion for Mr. Justice Stone to be the spokesman for this Court in support of this principle followed in the *Maple Flooring* and *Cement Manufacturers* cases, 268 U. S. 563 and 588 (1925). In the *Cement* case it was once again necessary to reverse the decision below which had been favorable to the government. The specific facts in both cases involved agreements between a combination of manufacturers to exchange among themselves and discuss information as to current conditions in the industry. The cases were on their facts somewhat different from our case,—and indeed the whole point of the law is that each case is to be separately considered on its specific facts; but there are certain respects in which both the *Maple Flooring* and *Cement*

cases were peculiarly like ours in their emphasis upon the fact that "even combinations of persons or corporations" may exchange and even discuss as among themselves information and statistics, provided that they are not thereby "reaching or attempting to reach any agreement or any concerted action with respect to prices or production or restraining competition" (*Maple Flooring* case at 586), and indeed that such activities are legal "even though it be assumed that the result of the gathering and reporting of such information tends to bring about uniformity in price" (*Cement* case at 604).

Chief Justice Hughes was the spokesman for the Court in another case strongly favorable to the government, yet in which the decision below in favor of the government was reversed for similar reasons, *Appalachian Coals* v. *United States, supra.* A combination of bituminous coal operators there went even further than the handblown window glass manufacturers had gone. Although they controlled 73% of the commercial production in their immediate region, they organized and sold through an exclusive common selling agency. Their defense was that they did this in order to defend themselves against adverse economic conditions in a buyer's market. The court below, once again failing to observe that the problem was to inquire into the particular economic facts, condemned the combination. This required Chief Justice Hughes again to review the principles of the rule of reason, quoting from Mr. Justice Holmes' opinion in the *Nash* case and from Mr. Justice Brandeis' opinion in the *Chicago Board of Trade* case, and also citing the *Standard Oil, Tobacco, Window Glass* and *Maple Flooring* cases, as well as the *Cracking* case. The Court said, at p. 377:

"The Anti-Trust Act aims at substance. Nothing in theory or experience indicates that the selection of a common selling agency to represent a number of producers should be deemed to be more abnormal than the formation of a huge corporation bringing various independent units into one ownership. Either may be prompted by business exigencies, and the statute gives to neither a special privilege. The question in either case is whether there is an unreasonable restraint of trade or an attempt to monopolize. If there is, the combination cannot escape because it has chosen corporate form; and, if there is not, it is not to be condemned because of the absence of corporate integration. As we stated at the outset, the question under the Act is not simply whether the parties have restrained competition between themselves but as to the nature and effect of that restraint."

We have now reviewed a series of cases in this Court, with opinions written by four successive Chief Justices (White, Taft, Hughes and Stone), and by Justices Holmes and Brandeis, all united in propounding and explaining the rule of reason. Again and again we have seen the District Courts fall into the error of assuming that, because agreements and combinations restricted the full and secret competitive efforts of members they must inherently be illegal. What this Court has consistently laid down is that, except in cases where the agreement is directed by intent or necessary effect to the fixing of prices or division of market or the like, every such agreement must be studied independently to see whether it was not founded on some valid economic reason. Even agreements by 73% of an industry to eliminate competition and sale by use of a common selling agency (*Appalachian Coals*), or by an entire industry

to limit seasons of production (*National Window Glass Manufacturers*), or by 100% of the traders in a given line of commerce to restrict hours of trade and actually fix prices for limited periods (*Chicago Board of Trade*), have been upheld when the Court found that they were adopted for reasonable ends and therefore did not unduly restrain trade.

We do not need to ask this Court to go anywhere near that far in this case. Du Pont made no restrictive agreement with National Lead of any sort. The patent license agreement was the only *agreement* that it did make and it was admittedly helpful to competition and to trade. The only wrong charged to it is that, in order to obtain the benefits of that agreement, it did "no more than" state that it had no present intention of attempting to enter a foreign market from which it was in any event barred by practical economic reasons.

We respectfully submit that, however considered and from every viewpoint, this conduct of du Pont was entirely innocent under the decisions of this Court, and far from meriting blame or condemnation, it should have received the strong approbation and endorsement of the District Court for having forced competition into an industry which prior thereto had been a closed monopoly.

POINT II

THE 1933 PATENT LICENSING AGREEMENT WAS DESIGNED TO AND DID PROMOTE RATHER THAN RESTRAIN COMPETITION AND TRADE.

The government did not charge either in its complaint or at the trial that the 1933 agreement constituted on its face a violation of the anti-trust laws. And the District

Court did not expressly pass on the validity from the anti-trust standpoint of the 1933 agreement standing alone. The opinion below, however, states that "The case also presents the question whether the contract between NL and DP is offensive to the anti-trust laws independently of the relation of that contract and the parties thereto to the foreign producers" (R. 219). Thereafter the opinion criticizes seriously the character of the agreement independently of conspiracy considerations. Consequently we must examine the validity of the 1933 agreement apart from any such considerations.

The purpose and effect of the agreement must be reviewed in the light of the facts which led to and inexorably demanded its execution.

When it became evident that du Pont, to protect its competitive position in the pigment industry, must enter the titanium business (Ex. R. 986-7, 1049), it considered the various possible alternatives. At the outset it recognized that it was a late-comer in the field and that the art was already well developed and protected by patents. Nevertheless, it first attempted to solve the problem by its own laboratory and research work, to which was devoted considerable time and money to develop a patent-free process. During the period 1929 to February, 1931, it expended $130,000 (Ex. R. 986, 1050-1). This effort, as found by the District Court (FF 70, R. 278), failed; and by 1931 it had become apparent that before du Pont could enter the business via this route it would be necessary to make substantial additional expenditures to construct and operate a pilot plant, and to undertake very large research and development expenses in addition to large capital expenditures for the construction of a plant, which in any event probably

would not be completed until 1933 (FF 70, R. 278; Ex. R. 986-7, 1051). This was not an attractive prospect. Not only was it recognized that the existing manufacturers were lowering costs and substantially increasing plant capacity, with the result that opportunities for a newcomer in the field would be definitely more unfavorable by the end of 1933, but in view of the known strong patent position of the two existing United States manufacturers of titanium pigments, National Lead and Commercial Pigments, du Pont had no assurance that it could establish an independent patent-free process (Ex. R. 1051-2).

A second alternative was to remain in the pigment industry solely by the production and sale of lithopone, in which it was presently engaged but the commercial doom of which was clearly indicated. That being clearly unacceptable, it could have endeavored to compete in the pigment field by obtaining its titanium pigments from the existing producers, a solution hardly more acceptable than the first, since it would undoubtedly have been at a heavy commercial disadvantage to the pigment producers who could produce their own. Therefore, the only practical courses left to it were either to attempt to buy out one of the existing producers or in some other way to come to terms with them by way of securing a license or otherwise.

Du Pont, therefore, concluded that the best means of entering the business on a basis which would offer adequate prospects of commercial success would be to acquire, if possible, the patent rights and going business of Commercial Pigments (FF 70, R. 278),[32] and, in the event that this

[32] Commercial Pigments was operating under the Blumenfeld process and patents, the only known commercial process other than that operated by National Lead (FF 34-5, 37, R. 247-9).

could not be done, to discontinue research for developing an independent process and be content to purchase pigments from other manufacturers, and to abandon all prospects of entering the field (Ex. R. 1051).

As has been seen, the acquisition of Commercial Pigments proved to be possible and was made. However, this acquisition, although it brought with it capital facilities and important patent rights, by no means proved to be the answer to du Pont's hope for a process free of the patents of others.

At the time of the acquisition du Pont recognized that the Commercial Pigments process infringed a number of National Lead's patents, some of which it believed to be unquestionably valid and some of which it believed, with varying degrees of conviction, to be invalid. Despite this, however, the acquisition was made, in part for the commercial advantages which immediate entrance into a going business offered, and in part because du Pont hoped that, in possession of the patent rights and technical knowledge of Commercial Pigments, in combination with its own, it could successfully find a way to avoid those patents of National Lead which even then it knew covered important steps of Commercial Pigments' operations, or, alternatively, to have a good trading position to obtain rights under National Lead's patents in the event that its efforts to avoid them proved to be unsuccessful; vulnerable to National Lead's patents as it still might be, it would be in a vastly better position than before (Ex. R. 995, 1024-6, 1052, 1089-97, 1150-1, 1172-89).

However, the relatively optimistic spirit in which this avenue was approached was subdued by actual commercial experience in the business which taught it the strength of the National Lead patent position. Not only did it not dis-

cover an economic and commercially competitive way to avoid National Lead's patents,[33] but, almost as important, neither it nor Commercial Pigments had any experience or a substantial patent position in the production of composite titanium pigments, a closely related field in which as a commercial matter it was necessary that it engage. National Lead alone in the United States was engaged in that field and had a blocking patent position (Ex. R. 1242-50, 1040).

In the exploration and resolution of this patent controversy, found by the District Court to be *bona fide* (FF 72, R. 279), du Pont found itself confronted with infringement claims by National Lead not only of the patents which it itself had previously feared, but of a considerable number of other patents (Ex. R. 1297, 1395, 1397-9, 1404). Furthermore, it became apparent that each had patent applications which, if they issued into patents, would be necessary to either the present or proposed operations of the other (Ex. R. 1295-1332, 1353, 1364, R. 891-2). In short, du Pont found itself faced with an irreconcilable and serious patent conflict with National Lead, both existing and potential, the favorable outcome of which would have been expensive, time-consuming and doubtful at best.[34]

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[33]For instance, certain of du Pont's technical men had, prior to the acquisition of Commercial Pigments, thought it possible to avoid certain National Lead patents at an estimated cost of $20 per ton. However, actual commercial experience, in contrast to its former laboratory experience only, made it clear to du Pont that it would cost $40 a ton to avoid just one of National Lead's patents (Ex. R. 1353). This single cost differential would have amounted to more than 11% of the then selling price of titanium (Ex. 42, not printed but a part of the record on file with the Clerk of this Court).

[34]Similarly, from the National Lead standpoint, National Lead found itself confronted with a number of claims of infringement of du Pont's patents in the operation of National Lead's existing

The resolution of the patent controversy represented by the agreement of 1933 resulted, as it was intended to do and as the District Court found (FF 79, R. 293), in the settling of the existing and potential patent disputes of the parties and the promotion of the more rapid development of the titanium business and a greater freedom of action for the parties under the titanium pigment patents and developments. Among other things, it enabled du Pont, which had never been engaged in the manufacture of composite titanium pigments, to enter this field and to offer substantial competition to National Lead, which had hitherto been the sole producer in the United States (Ex. R. 4361-96), and its effect on du Pont's production of pure TiO_2 was immediate and marked, as is shown on the table presented on page 12, *supra*.

The District Court further found that du Pont had the following purposes in entering into the agreement: (1) to avoid the expense and risks of patent litigation; (2) to avoid research expense in trying to avoid infringement of valid patents of National Lead; and (3) to obtain access to National Lead's technical experience and patents (R. at 292).[85]

Du Pont could, of course, have elected to fight the matter out in the courts if need be, at whatever cost, delay or

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process (Ex. R. 1309, 1313-4). Further, despite its blocking patent position, National Lead wished to adopt (and subsequently did so) a number of du Pont's operations which were protected by patents, *e.g.*, seeding hydrolysis, salt calcination and other procedures (Ex. R. 1364, R. 911).

[85] The District Court also found that an additional purpose of du Pont in entering the agreement was to strengthen its patent position to the exclusion of others. This finding, which we believe to be without any support in the record, will be examined at length below (see pp. 98-99, 176-179).

risk. But du Pont itself had little faith in the favorable outcome of such a struggle, and the legal and commercial risks were critical and incalculable. These risks it was not, and could not reasonably have been, required by law to undertake. The courts, including this Court, have long and consistently recognized that the anti-trust laws do not demand that patent conflicts be resolved only by litigation, but, indeed, that public policy sanctions and encourages their composition in good faith.[30] Du Pont chose the reasonable course of negotiating a license.

The licensing arrangement which the parties entered into, a simple non-exclusive exchange of rights, was the least restrictive arrangement possible. Indeed, it may fairly be said that there was no restriction in it, either with respect to the activities of the parties or the activities of others. Neither party was prohibited, either by covenant or by the withholding of patent rights, from engaging in any portion of the titanium field. Each was entirely free to license third parties under its own patents, it to be the sole judge of the persons to whom, the time when, the duration, and other terms and conditions, including royalty terms, on which such a license should be granted. There

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[30] *Standard Oil Co. (Indiana)* v. *United States*, 283 U. S. 163 (1931); *Virtue* v. *Creamery Package Co.*, 227 U. S. 8 (1913); *Bement* v. *National Harrow Company*, 186 U. S. 70 (1902); *United States* v. *Aluminum Co. of America*, 44 F. Supp. 97 (S. D. N. Y. 1941), rev. on other grounds, 148 F. (2d) 416 (C. C. A. 2d, 1945); *cf. United States* v. *United Shoe Machinery Company of New Jersey*, 247 U. S. 32 (1918); *United States* v. *Winslow*, 227 U. S. 202 (1913); *Indiana Mfg. Co.* v. *J. I. Case Threshing Mach. Co.*, 154 Fed. 365 (C. C. A. 7th, 1907), dis'm. per stip., 207 U. S. 603 (1907); *Massie* v. *The Asbestos Brake Company*, 95 N. J. Eq. 298, 123 Atl. 155 (1923).

was no provision for cooperation either in or out of the Patent Office for the securing or defense of patents. Nor was there any provision for action, either jointly or individually, against competitors, whether infringers of the patents of either of them or not. And there were no provisions binding either of the parties to recognize the validity of the patents of the other. The exchange of technical information provided by the agreement was likewise on a non-exclusive basis and without restriction as to the use of the information exchanged.

What the cross-license accomplished was simply liberty of action on the part of both parties freely to engage in the titanium field without hindrance by the other. Far from restricting the activities of either, the agreement promoted competition by enabling the parties more effectively to compete with each other and by permitting the parties to do that which they could not theretofore lawfully and safely do: operate under the patents of each other and compete in full measure with each other.

In short, the agreement diminished the individual lawful patent monopoly powers of each and added no new powers to either to restrict the activities of others. Such power to restrict the activities of others as each continued to have was only that which it had before the agreement, i.e., the exclusive right lawfully given to it by valid patent grants of the United States Government, an individual power both before and after the agreement and one which was neither impaired nor enhanced by the agreement.[87]

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[87] When the District Court in its opinion (R. 222) states that "the power to prevent it [the development of competition] must be shorn from those who, by combination, have acquired it", it surely cannot be referring to any such power acquired by du Pont in combination with National Lead by means of cross-

This is not the *Hartford-Empire* case,[38] in which the parties allocated fields not only as between themselves but among their respective licensees, cooperated both in and out of the Patent Office and courts to secure and enforce patents which should not have been issued, to juggle claims as between themselves, to prevent third parties from securing patents, and by patent infringement suits and otherwise to drive competitors either out of business or into channels predetermined by them, and in which the parties exercised a veto over the licensing of third parties and bought up rivals and competitive patents. This is not the *Bathtub* case,[39] or the *New Departure* case,[40] in which competitors used patent licenses as a mere device or cloak to add a color of legality to price fixing and the restriction of competition *inter se.* Nor is it the *Blount* case,[41] in which each cross-licensing patentee, among other things, agreed not to compete with the others in various fields and imposed restraints on the conduct of others under their own

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license, since du Pont acquired no such power by the agreement. Had du Pont and National Lead truly pooled their patents and adopted a joint offensive policy and concertedly used their pooled patents against their competitors, or had they pursued a joint policy in the Patent Office, etc., the matter might well be different. Such power could perhaps be said to be achieved by combination, but that is not this case. The findings of the District Court, both in what they said and what they omitted, make perfectly clear that beyond the simple, non-exclusive exchange of rights, the parties did not act concertedly in any manner.

[38] *Hartford-Empire Company* v. *United States,* 323 U. S. 386 (1945).

[39] *Standard Sanitary Manufacturing Company* v. *United States,* 226 U. S. 20 (1912).

[40] *United States* v. *New Departure Mfg. Co.,* 204 Fed. 107 (W. D. N. Y. 1913).

[41] *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.,* 166 Fed. 555 (C. C. D. Mass. 1909).

patents and accepted restraints on its own conduct under its own patents.

The actions of the parties in this case were consistent with the complete freedom provided by their agreement. The rights exchanged or retained were widely exercised. The parties' competition with each other in the production and sale of titanium pigments was, as found by the District Court (FF 78, R. 290-1), extensive in scope and active in character. As found by the District Court (FF 84-5, R. 295-8), the only applicants to du Pont for licenses under its titanium patents were granted licenses,[42] and independently of National Lead. There is no finding, nor any evidence to support a finding, that the parties cooperated either in or out of the Patent Office or in the courts to secure patents for themselves, to defeat the patent applications of others or to stifle or impede the operations of third parties in any respect.

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[42]Not only were such applicants, American Zirconium and Virginia Chemical, freely licensed by du Pont when they requested a license, but such licenses were equally freely subsequently broadened by du Pont. On May 7, 1943, in response to a request by American Zirconium, du Pont modified the license agreement by including 15 patents and 18 patent applications then owned by du Pont covering processes for producing rutile titanium dioxide. No increased royalty was required (FF 84, R. 295-6). Similarly, in November, 1940, the Virginia Chemical license was broadened at its request to permit it to operate under a specific du Pont patent application covering antimony treatment for chalk resistance of pigment, an improved process for the manufacture of pure titanium dioxide, at an increase of 1% in the specified royalty. And the field of the license agreement was again broadened in July, 1943, at which time du Pont on its own motion granted Virginia Chemical, without increased royalty, a non-exclusive license under the above-mentioned rutile patents and applications (FF 85, R. 297-8; Ex. R. 4293-5).

The legality of a non-exclusive, unrestricted exchange of patent rights *per se* has been sustained whenever the issue has been presented to the courts, particularly when such an exchange arose out of and determined a *bona fide* patent controversy.[43]

What, then, are the bases upon which the District Court found the agreement to be unlawful? There were three: (1) the inclusion of future patents, (2) the inclusion of a technical exchange, and (3) the tonnage limitations in the du Pont licenses to third parties (R. 219-222).

We respectfully submit that as a matter of law the District Court was in error; that this case is controlled in all substantial respects by the *Cracking* case in which Mr. Justice Brandeis in 1931 spoke for a unanimous court.[44] In that case, this Court held that the cross-licenses there involved were reasonable and lawful, notwithstanding the fact that every one of the grounds applicable to du Pont on which the District Court in this case based its conclusion that the cross-license was unlawful also existed in the *Cracking* case and was strenuously urged by the government at that time.

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[43] *Standard Oil Co. (Indiana)* v. *United States*, 283 U. S. 163 (1931); *United States* v. *Line Material Co.*, 64 F. Supp. 970 (E. D. Wis. 1946), appeal pending in this Court; *United States* v. *Aluminum Co. of America*, 44 F. Supp. 97 (S. D. N. Y. 1941), rev. on other grounds, 148 F. (2d) 416 (C. C. A. 2d, 1945); *Lynch* v. *Magnavox Co.*, 11 F. Supp. 768 (S. D. Cal. 1935), rev. on other grounds, 94 F. (2d) 883 (C. C. A. 9th, 1938); *United States* v. *Motion Picture Patents Co.*, 225 Fed. 800 (E. D. Pa. 1915), app. dism., 247 U. S. 524 (1918).

[44] Mr. Justice Stone not sitting.

(1) ALL OF THE FEATURES COMPLAINED OF IN THE 1933 AGREEMENT WERE PRESENT IN THE AGREEMENTS IN THE OIL CRACKING FIELD AND APPROVED BY THIS COURT.

(a) The Exchange of Rights Under Future Patents.

The District Court inferred that one of du Pont's purposes (in addition to the other three which were unobjectionable) was to strengthen its own patent position to the exclusion of others by pooling its patents with National Lead (FF 79, R. at 292), and found that the "necessary effect" of the exchange of licenses under future patents was to increase "the capacity of such a combination to dominate the market" and "the capacity for the exclusion of outsiders" (R. 220, 292). It appears to recognize what must be the fact, that these consequences follow, if at all, even from an exchange of present patent rights, but that the exchange is nevertheless lawful under the *Cracking* case if, but only if, limited to the settlement of conflicting patent claims.

However, not only did the patent exchange in the *Cracking* case include future patents,[45] but even the ex-

[45] In the *Cracking* case the cross-license agreements, entered into in the early 1920s, covered patents to be acquired by the parties until January 1, 1937. This fact was clearly presented to this Court by the government in its brief (pp. 16, 22-3, 29), and indeed it was stressed in the complaint as making the cross-licenses illegal. In alleging the combination complained of the complaint stated:

"By granting rights under prospective as well as existing patents provision was made for extending the combination and monopoly beyond the life of any patents now owned by the defendants. Each thus protected its patents and asserted rights against attack by the others and they were enabled to present a solid front to all manufacturers of gasoline who

change of present patents was not confined to conflicting patents.[40]

Because of the inclusion of future patents, coupled with covenants not to contest patent validity (which were deleted before the case reached this Court on appeal), the District Court, on the basis of the same line of "patent proliferation" reasoning as is used by the District Court in this case, held the cross-licenses in the *Cracking* case to be unlawful (33 F. (2d) 617, 630); but this Court reversed. In our case, the agreement between National Lead and du Pont has never contained a covenant not to contest patent validity. Thus the government, in the *Cracking* case, unsuccessfully raised every point made by the District Court in this case, including the argument of "proliferation of patents". Indeed, in the *Cracking* case, many of the third-party licensees of the parties were required to grant back rights under future patents (*Cracking* case Record, Vol. I, p. 12).

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were compelled by competition to avail themselves of the economies resulting from the use of the cracking process" (*Cracking* case Record, Vol. I, p. 11).

The complaint went on to ascribe the following effects to such an exchange:

"to provide for the perpetuation of the plan beyond the life of any of the existing alleged patent rights by providing for a pooling of after-acquired patents" (*Cracking* case Record, Vol. I, p. 40).

[40]It was found as a fact that the principal cross-licensed patents of the primary defendants could be practiced without infringement, that subsequent to the cross-license each of the primary defendants continued to follow the teachings of its own patents, that the processes described in the claims of many of the patents were not adopted by any primary defendant not then owner of such patents, and that some of the claims of some of the patents were not followed by any of the primary defendants (33 F. (2d) 617, 625-6).

In short, this Court did not in that case require a meticulous measuring of conflicting patent claims or require that, to be lawful, a settlement of a patent controversy must be limited to precisely those patents in conflict, but rather it recognized that, at least in a fluid, fast-developing, highly complex art, it was lawful, and indeed necessary, for the parties to obtain a broad freedom to conduct their operations, rather than to compel the parties perpetually and on a piece-meal basis to settle the numerous points of conflict as they must inevitably have arisen from time to time.

Not only did the 1933 agreement between du Pont and National Lead not have the "necessary effect" ascribed to it by the District Court but that this Court in the *Cracking* case necessarily, and in the face of urgent argument to the contrary, held that exchange of non-exclusive licenses under present or future patents does not have such effect. Indeed, it would seem that if this were not so, the *Cracking* case must have gone the other way.

Under the non-exclusive, unrestricted exchange of patent rights, each party had precisely the same powers of exclusion by means of its own patents as it had had before—less, in fact, for the parties no longer could exclude each other. Even if it be assumed that the exchange of patent rights, by enabling the production of superior products, etc., increased the parties' ability to compete against third parties in the market, this increased merely the individual abilities of each, but not to the extent of either party gaining the power to fix market prices or to exclude competitors. While it is possible that the parties collectively and acting in concert could have done this, the Court expressly found (FF 78, R. 290) that no such concert of

action took place. Even if such collective power be assumed, which we submit has not been proved, surely it is a fatal fallacy to ascribe such power to either of the parties in the face of the fact, as found, that no concert of action existed. To the extent that some competitive advantage in the market accrued to the benefit of the parties as an incident of the exchange of rights, such a result was equally of necessity inherent in the *Cracking* case cross-license arrangements. Had the parties jointly asserted their patent rights against third parties, or had they acted concertedly in the Patent Office,[47] there might be ground for asserting that the parties by combination had enhanced their capacity to exclude. However, they did not do so, and the District Court did not find this, but expressly found no concert in the assertion of their patent rights against third parties (FF 84-5, R. 295-298).

With respect to du Pont's alleged intent to exclude (R. 292), the District Court's opinion (R. 220) makes absolutely clear that it was merely inferred from what the Court deemed to be the "necessary effect" of the agreement. There is no competent evidence whatsoever in the record to support the District Court's finding of inferred intent. In fact, the only competent direct evidence with respect to du Pont's intent, the contemporaneous statement by Rupprecht, made to his Board of Directors in connection

[47]Throughout du Pont's relations with National Lead it has at all times insisted upon independently patenting its own inventions and frequently filed applications in the Patent Office which were placed in interference with applications of National Lead. In each such instance du Pont insisted upon its rights to establish priority under and in accordance with Patent Office rules (Ex. R. 1862, 3089).

with his submission of the cross-license to the Board for its approval, is to the contrary.[48]

We submit, therefore, that the District Court's finding of necessary effect and intent, was not supported by the record, was based entirely upon an inference of "necessary effect" contrary to what this Court has held in the *Cracking* case, and should be accorded no weight.

(b) The Exchange of Technical Information

It is likewise clear that such an exchange was also involved, and of necessity sustained, in the *Cracking* case. The definitions of patent rights in two of the three principal agreements included, in addition to patents, all inventions relating to processes and apparatus, whether patented or not (33 F. (2d) 617, 626-7). The only difference between the technical information provisions of these agreements and the technical information provisions of the agreement between du Pont and National Lead is that the latter contains express agreements to disclose. Obviously, however, the licenses in the *Cracking* case of necessity had to be implemented by actual disclosure, so that the difference is without substance.

The District Court's belief that the information exchange added to the capacity of the parties to exclude outsiders is of no more substance than its same belief with

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[48]This statement (Ex. R. 1451-1453), which sets forth what du Pont expected to achieve by the cross-license, is persuasive that du Pont's purpose did not embrace the exclusion of third parties from the titanium field. This conclusion is reinforced by the absence of exclusionary intent in the record of negotiations and the inference impelled by such evidence and the internal records of du Pont regarding the patent conflict that the securing of freedom of action for du Pont in the titanium field was the motivating force behind the agreement.

respect to the exchange of rights under future patents. The technical information exchange was also on a non-exclusive basis. Not only has neither party been restricted with respect to what it may do with its own technical information, but the agreement stated that the technical information given by each to the other should be at its "full disposal" (R. 70). *Cf. Associated Press v. United States*, 326 U. S. 1 (1945).

The District Court's finding (FF 95, R. 305), that the National Lead and du Pont agreement had the necessary effect of securing a monopoly on technical information to the exclusion and detriment of other producers is not only not supported by the record, but is obviously inconsistent with the other findings of the District Court. That the parties have in fact neither individually nor collectively achieved a monopoly of technical information is, we think, conclusively demonstrated by the entrance and successful competition in the field of Virginia Chemical. Although it was licensed under du Pont's patents, it never requested or obtained du Pont's technical information. And, of course, Virginia Chemical was not even licensed under National Lead's patents and did not get its technical information.

Nor, in fact, did Zirconium obtain or request du Pont's technical information.

Finally, as has been detailed at length above (pp. 17-19), the information exchange was ended at du Pont's insistence in 1940, long before the present litigation was commenced or, so far as du Pont is aware, contemplated. Even were such an exchange illegal, the matter is, on the authority of the *Cracking* case, clearly moot.[40]

[40] 283 U. S. 163, 181-2 (1931).

(c) The Tonnage Limitations on du Pont's Licensees

The tonnage limitations in the Virginia Chemical and American Zirconium licenses were never restrictions on the amount of titanium which could be produced by the licensees, but simply limitations on the amount which could be produced under du Pont's patents, beyond which the licensees could produce only on risk of infringement and suit for infringement (Ex. R. 282, 397). The licensees were placed under no different disability than they suffered before the execution of the agreement. In other words, the limitations amounted to nothing more than limitations upon du Pont's covenant not to sue.

Such a limited waiver of a lawful patent monopoly has always been considered to be lawful and within the patentee's rights.[50] Just as with the so-called field of use restrictions, it has never been held that the patentee has either to keep entirely to himself his patent monopoly or to release it wholly if he releases it at all.[51]

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[50] *Hartford-Empire Co.* v. *United States*, 323 U. S. 386 (1945); *Mitchell* v. *Hawley*, 16 Wall. 544 (1872); *Rubber Tire Wheel Co.* v. *Milwaukee Rubber Works Co.*, 154 Fed. 358 (C. C. A. 7th, 1907); *United States* v. *Parker-Rust-Proof Co.*, 61 F. Supp. 805 (E. D. Mich. 1945); *Aspinwall Manf'g. Co.* v. *Gill*, 32 Fed. 697 (C. C. D. N. J. 1887), app. dism., 140 U. S. 669 (1891); *Burr* v. *Duryee*, 4 Fed. Cas. 806 (C. C. D. N. J. 1862), aff'd, 1 Wall. 531 (1864). But *cf. American Equipment Company* v. *Tuthill Building Material Co.*, 69 F. (2d) 406 (C. C. A. 7th, 1934). A tonnage limitation accomplishes nothing more than could be accomplished by a time limitation, which was approved in *Ethyl Gasoline Corporation* v. *United States*, 309 U. S. 436, 456 (1940).

[51] *Hartford-Empire Co.* v. *United States*, 323 U. S. 386 (1945); *General Talking Pictures Corporation* v. *Western Electric Co.*, 304 U. S. 175 (1938); *Bement* v. *National Harrow*

Similar quantity limitations were contained in various licenses issued by Gasoline Products Company and Standard Oil of New Jersey, two of the primary defendants in the *Cracking* case. (Main Brief for Primary Defendants in that case, pp. 65-9.) Such quantity limitations were alleged in the complaint to be unlawful (*Cracking* case Record, Vol. I, pp. 32-8). As in this case, however, such licenses were issued by the cross-licensing patentees under their own respective patents and not pursuant to the cross-licensing agreements or under the patents of others.

(1) American Zirconium

Even were such limitations questionable, du Pont never actually enforced them. The tonnage limitations in Zirconium's license were relaxed by agreements reached between the parties on November 18, 1937 (Ex. R. 1706), November 9, 1939 (Ex. R. 1745), and August 8, 1941 (Ex. R. 4269). These were the result of the only requests for modification made by Zirconium of du Pont, the first and third of which were granted in their entirety (Ex. R. 1706,

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Company, 186 U. S. 70 (1902); *Rubber Company* v. *Goodyear*, 9 Wall. 788 (1869); *Sinko Tool & Mfg. Co.* v. *Casco Products Corporation*, 89 F. (2d) 916 (C. C. A. 7th, 1937); *Becton, Dickinson & Co.* v. *Eisele & Co.*, 86 F. (2d) 267 (C. C. A. 6th, 1936), cert. den., 300 U. S. 667 (1937); *Vulcan Mfg. Co.* v. *Maytag Co.*, 73 F. (2d) 136 (C. C. A. 8th, 1934), cert. dism., 294 U. S. 734 (1935); *Westinghouse Electric & Mfg. Co.* v. *Tri-City Radio Electric Supply Co.*, 23 F. (2d) 628 (C. C. A. 8th, 1927); *Radio-Craft Co., Inc.* v. *Westinghouse Electric & Mfg. Co.*, 7 F. (2d) 432 (C. C. A. 3rd, 1925); *Pope Manf'g Co.* v. *Owsley*, 27 Fed. 100 (C. C. N. D. Ill. 1886).

4269), while the second, that of September 15, 1939 (Ex. R. 1728), was granted in part at that time (Ex. R. 1745).[52]

Moreover, the tonnage limitation, in fact, never resulted in any limitation of Zirconium's production.[53] Zirconium was authorized to produce 63,000 tons of titanium dioxide in the period 1935-1944, but in fact it produced only 35,637 tons during the period, or about 56% of the licensed quantity. The following schedule shows the quantity allowed

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[52]On September 15, 1939, Zirconium asked du Pont for permission to increase production to 9,000 tons per year beginning January 1, 1940 (Ex. R. 1728). After some correspondence and negotiations du Pont on November 9, 1939, authorized Zirconium to carry over to 1940 the entire amount of production allowed for 1939 but not utilized, thus permitting Zirconium to produce 6,719 tons in 1940; and this modification was accepted by Zirconium (Ex. R. 1745). During the year 1940, Zirconium, however, produced only 4,829 tons (R. 1147), and after renewing its request was authorized to produce 9,000 tons for 1941 and subsequent years (Ex. R. 4269).

[53]The only evidence to the contrary is the following: In support of its request of September 15, 1939, Zirconium indicated that it was prepared to expand its plant to enable it to produce 9,000 tons (Ex. R. 1737); stated that the company hesitated to expand to a 9,000-ton unit which would assure at least a 6,000-ton production solely because the additional investment might result in production in excess of 6,000, which went beyond the quantity permitted under the license agreement (Ex. R. 1743), and argued that the quantity limitation prevented operations on a profitable basis (Ex. R. 1737).

However, that these representations were mere argument, not justified by the facts, is clear. As late as November, 1941 (after du Pont had relaxed the tonnage limitation to permit a production of 9,000), the question of increasing Zirconium's capacity sufficiently to enable it to produce 9,000 tons was still under discussion by its directors, and it appears conclusively from Zirconium's own minutes that directors representing Metal & Thermit and National Lead which together held 55% of the Zirconium common stock, were unwilling to make available capital necessary for the increase, for a variety of reasons involving the question

under the modified license, the actual production of Zirconium, and the ratio of actual production to the allowed amount for each of the years 1935-1944:

	Quantity Specified in License as Amended[54]	Actual Production[55]	Ratio Production to Specified Quantity
1935	3,000	2,206	73.53%
1936	3,000	3,053	101.76
1937-38	9,000	7,713	85.70
1939-40	12,000	10,110	84.25
1941	9,000	6,568	72.97
1942	9,000	1,796	19.95
1943	9,000	243	2.70
1944	9,000	3,948	43.86
TOTAL	63,000	35,637	56.56%

of the adequacy of the company's management and the business soundness of the project (Ex. R. 4042, 3974, 3990, 3978, R. 1086, 1089, 1094). It is also clear that in 1939 Zirconium operated at a profit (Ex. R. 3978). Indeed, the record shows that Zirconium's operations were profitable in 1937, 1938, 1939, and while a loss was experienced in 1940, profits again appeared in 1941, these profits being made in spite of substantial sales commissions and management fees paid to parent companies (Ex. R. 3978, 3979). Thus, it appears that Zirconium's production of titanium dioxide was not in fact restricted by the tonnage limitations, but by factors not within the control of du Pont, and that du Pont, whenever requested, and to the full extent necessary, authorized relaxation of the quantity limitation.

[54]Ex. R. 283, 1706, 1745, 4269.

[55]R. 1147—with 1944 production estimated on basis first six months' production.

(ii) Virginia Chemical

As in the case of Zirconium, the quantity limitations in the Virginia Chemical license were frequently relaxed, either at its request or voluntarily on du Pont's part. There was no instance where a request for modification was made which was not granted by du Pont. In the short period from October, 1937, to August, 1941, Virginia Chemical was granted six specific relaxations of the quantity restrictions. The modifications were made on October 11, 1938 (Ex. R. 1818), March 9, 1939 (Ex. R. 1823), November 21, 1939 (Ex. R. 1825), August 5, 1940 (Ex. R. 1827), May 21, 1941 (Ex. R. 4287), and August 8, 1941 (Ex. R. 4290).

The liberality and flexibility of these modifications may be seen from the fact that while the original license agreement provided for a quantity of 3,000 tons in the period of October 1, 1939, to September 30, 1941, this amount was increased on request of Virginia Chemical, first, to 3,600, then, to 4,500, and finally, to 5,000 tons (Ex. R. 1823-1827).

As modified, the license agreement permitted for the period October, 1937, to September, 1944, a total tonnage of 43,000, but Virginia Chemical was not able to produce this quantity, and produced in the period only 33,572 tons (R. 1147), or about 78% of the licensed amount.[56] In fact, the largest production of Virginia Chemical occurred in 1943-1944, at a rate of 6,437 tons in 1943 and 7,294 in 1944 (R. 1147), during which Virginia Chemical was authorized under the license to produce 9,000 tons per annum.

[56] A schedule showing the ratio of Virginia Chemical's actual production by years to the allowed amount, such as was presented with respect to Zirconium, was not set forth, due to the inadequacy of record data.

There is no evidence that Virginia Chemical ever objected, at the time of the negotiation of the license or subsequently, to the quantity limitations, and in the absence of evidence, it may be assumed that no objections were made. Similarly, since there is no evidence to the contrary, it may be assumed that Virginia Chemical operated under the license at a profit.

Finally in November, 1944, prior to the trial of this cause, although subsequent to the filing of the complaint, du Pont voluntarily canceled the quantity limitations in both the Zirconium and Virginia Chemical licenses (FF 84-5, R. 295, 297). Even if it is believed that the quantity limitations were improper, it is submitted that this action renders the question moot. It is beyond the power of du Pont to reinstate the limitations in those licenses, and injunctive relief is, therefore, completely unnecessary. Such was the holding in the *Cracking* case, in which similar action was taken after the trial had commenced.

(2) THE DECISION OF THIS COURT IN THE *CRACKING* CASE IS CONTROLLING

We believe we have shown that the legality of the agreement between du Pont and National Lead and even the District Court's findings of "necessary" effect and intent are controlled in every substantial respect by the *Cracking* case and that such agreement substantially promoted rather than restrained competition and trade. Indeed, the District Court, in its opinion (R. 222), unconsciously in effect conceded this when it assumed "that such exchange of rights standing alone is lawful". It went on, however, to state that the agreement is an instrument of restraint because the parties were the only producers of

titanium and even at the time of the trial between them did approximately 90% of the titanium business in the United States. The *Cracking* case was no different, for the licensor parties included the largest producers in the industry, and with the licensees substantially all of the large producers in the industry were within the contractual orbit.

In this connection, the Court referred only to the *Associated Press* case, 326 U. S. 1 (1945), in which newspapers controlling 96% of the total news circulation of the United States had made their news sources available to each other. The citation was inapposite. The vice of the Association in that case lay in the *exclusive nature* of the arrangement, coupled with the by-law provisions giving each member, in effect, the power to *exclude competitors* from membership in the Association. In short, each member of the Association was not only bound not to furnish news to non-members, but each member had the power to prevent non-members from obtaining access of the news of each and every other member. No comparable power on the part of either du Pont or National Lead by virtue of their agreement, or otherwise, existed or has in fact been exercised. In fact, the Court found to the contrary.[87]

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[87] That this distinction is valid has been hitherto recognized by the Department of Justice. In 1930, it filed a complaint against Radio Corporation of America, General Electric Company, Westinghouse Company, American Telephone and Telegraph Company, and others in the United States District Court for Delaware. These companies, substantially occupying the entire radio field, were parties to an exclusive cross-licensing arrangement. The Department of Justice consented to the entering of a consent decree against certain of the defendants which enjoined the recognition of any of the cross-licenses as exclusive. The Department also dismissed its complaint against American Telephone and Telegraph Company and Western Electric Company, who, with the approval of the Department, had substituted non-exclusive cross-licenses between them and the Radio Group for the prior exclusive cross-licenses.

If wholly unrestricted, non-exclusive exchanges of licenses are to be held invalid, we believe that it is obvious that progress in the arts and sciences and effecting competition will be seriously impeded, and particularly so in this industry, as to which the District Court found that the cross-license promoted the more rapid development of the art and a greater freedom of action of the parties (FF 79, R. at 293).

PART TWO

THE PROVISION IN THE DECREE COMPELLING DISCLOSURE OF EXISTING AND FUTURE TECHNICAL INFORMATION SHOULD IN ANY EVENT BE ELIMINATED.

Assuming *arguendo* that the decree below is to be affirmed on the merits as to du Pont, we turn to an aspect of such decree. Du Pont contends that the provisions of this decree compelling it to disclose its existing and future technical information are improper both on the ground that the District Judge had insufficient power to order such disclosure and on the ground that his order constituted a serious abuse of discretion and operated contrary to the objectives of the Sherman Act. We say that the District Judge was without *legal power* to order disclosure of technical information under the rule of the *Hartford-Empire* case, 323 U. S. 386, and in the light of well established equity doctrines. We say that the District Judge, moreover, *abused his discretion* in that the order as to disclosures of technical information was unnecessary to permit competitors to operate under the compulsorily licensed patents, that disclosure will destroy competition which now exists and bring competitors closer together, that disclosure will remove incentives for future technological advancement, and that disclosure is wholly onerous and unnecessary in view of the fact that its exchange was discontinued between du Pont and National Lead long before the suit was initiated and more than six years ago.

The provision in question appears in a single sentence in the middle of paragraph 7 of the decree, as follows:

> "During a period of three years from the date of this decree such license [the compulsory license] or

> reciprocal license may at the option of either party contain a provision for the imparting in writing, at a reasonable charge, by the licensor to the licensee, of the methods and processes used by the former at the date of the license in its commercial practice under the licensed patents in connection with the production of titanium pigments".

The various points concerning this provision will now be discussed below:

1. The District Court Exceeded Its Legal Authority

The power of a court in a Sherman Act proceeding to compel the compulsory licensing of technical information was considered in the *Hartford-Empire* case, 323 U. S. 386, at 418, and this Court there held that, like royalty-free licensing, compulsory licensing of technical information was an inappropriate remedy even in a situation such as was there presented involving most extreme forms of restraint. On this issue there was no dissent. Paragraph 24 (c) of the *Hartford-Empire* decree was summarized by this Court as being

> "(c) to make available to any licensee, under '(a)' and '(b)' [the compulsory licensing provisions], at cost, plus a reasonable profit, all drawings and patterns 'relating to the machinery or methods used in the manufacture of glassware' embodied in the licensed inventions (with immaterial exceptions)" (p. 413).

This Court then ruled:

> "Paragraph 24 (c) should be deleted" (p. 418).

There is no possible warrant for distinguishing the two cases so as to impose a more severe decree in this respect

on du Pont in the present case than was imposed upon the Hartford-Empire Company and its co-conspirators. If this Court does uphold this provision in the present case, its decision must necessarily be read as overruling the *Hartford-Empire* case. Yet the *Hartford-Empire* case was decided only two years ago, and was reaffirmed on rehearing, after there had been two extensive and thorough oral arguments.

If any distinction is to be drawn between the cases, surely it must be one favorable to du Pont. The whole tenor of the District Judge's opinion and findings in this case are charged with recognition of the relatively very moderate degree to which du Pont was implicated in violation of the law, if at all. Moreover, in the *Hartford-Empire* case, the technical information involved was limited to drawings and patterns. In this instance the "methods and processes" used in commercial practice require the disclosure not alone of plant layouts and other information comparable to drawings and designs, but require the disclosure of information which in the last analysis is buried in the minds of persons skilled in the art and in intimate daily contact with the operation of the processes.

We need hardly remind this Court of the contrasting position of many of the Hartford-Empire defendants. Its violations of law were deliberate, continuing and even shocking. As Mr. Justice Black said in dissenting, 323 U. S. at 436-437:

> "The history of this country has perhaps never witnessed a more completely successful economic tyranny over any field of industry than that accomplished by these appellants".

Mr. Justice Rutledge in his dissenting opinion, 323 U. S. at 439, stigmatized the defendants' conduct as a

> "long adventure in monopoly and unlawful restraint of trade".

And the majority opinion itself held, 323 U. S. at 406, 407:

> "It is clear that, by cooperative arrangements and binding agreements, the appellant corporations, over a period of years, regulated and suppressed competition in the use of glassmaking machinery and employed their joint patent position to allocate fields of manufacture and to maintain prices of unpatented glassware".

In our case, du Pont had no part in any allocation of fields of manufacture. It had no part in any program to maintain prices. Competition under all significant headings clearly existed between it and other United States producers. As summarized in 4 *Pomeroy's Equity Jurisprudence* (5th Ed., 1941) 943:

> "It is, however, a familiar doctrine that a court of equity will not exercise its jurisdiction to grant the remedy of an *affirmative* specific performance, however inadequate may be the remedy of damages, whenever the contract is of such a nature that the decree for its specific performance cannot be enforced and its obedience compelled by the ordinary processes of the court. A specific performance in such cases is said to be impossible; and contracts stipulating for personal acts have been regarded as the most familiar illustrations of this doctrine, since the court cannot in any direct manner compel an actor to act, a singer to sing, or an artist to paint."

Compare *Rutland Marble Co.* v. *Ripley,* 77 U. S. 339, 358-359 (1890) ("Another serious objection to a decree for a

specific performance is found in the peculiar character of the contract itself, and in the duties which it requires of the owners of the quarries. These duties are continuous. They involve skill, personal labor, and cultivated judgment. It is, in effect, a personal contract to deliver marble of certain kinds, and in blocks of a kind, that the court is incapable of determining whether they accord with the contract or not."

True, the doctrine ordinarily finds application in the refusal of an equity court to enforce personal contracts in an affirmative way. But the principle underlying the rule, *i.e.*, the impracticableness of judging adequate performance, applies equally to the provision of the District Court's decree. It is one thing to order the granting of a license under a patent and quite another thing to order an exchange of technical information. The former requires the exercise of ministerial acts on the part of the persons subject to the order; the latter calls for the rendering of highly specialized services by them which it is impracticable for a court of equity to police.

2. The District Court Abused Its Discretion

Even if this Court finds that the District Judge had legal authority to order compulsory licensing of both existing and future technical information, the present record demonstrates that such an order is not necessary to promote competition in the titanium pigment industry as it has now existed for many years past. Neither American Zirconium which entered the industry in 1934, nor Virginia Chemical which entered the industry in 1935, ever exchanged technical information with or received it from du Pont (*supra*, pp. 20-23, 100). Both compete successfully

with National Lead and du Pont; Daley, General Manager of du Pont's Pigments Department, characterized the competition of American Zirconium and Virginia Chemical as "tough" (R. 1159). The government did not challenge his position by other testimony or documentary evidence and did not even cross-examine him with respect to it (R. 1168-1172). In fact, the government did not call a representative of either Zirconium or Virginia Chemical and presented no proof that technical information was required for prospective competitors.

National Lead exchanged limited technical information with Zirconium (*supra,* p. 22). But this is no reason for compelling du Pont to disclose its technical information. American Zirconium has competed in the industry up to the present time without it. Furthermore, Virginia Chemical has never exchanged with or received technical information from National Lead. This has not prevented Virginia Chemical from competing in the industry. What it has done, others can do.

Moreover, the compelling of competitors to disclose to one another their technical information would seriously reduce the incentive to make developments, to the ultimate disadvantage of the consuming public. It is the theory of our economic system that research, development and progress will be stimulated by the rewards to be gained in competition as a result of superior quality, lower costs, etc. The thing that impels development is the competitive advantage, frequently even a temporary one, to be gained by the one making the development and the correlative fear of competitive disadvantage from falling behind in the race for improvement. If the producers in this industry must turn over their developments to their competitors and may ex-

pect to receive the developments of their competitors, the "pleasure-pain" motive will obviously be diminished.

There is a vital distinction between exchange of information in an infant industry and exchange in a matured industry. In an infant industry, where one company has gained a great initial advantage, competition will often benefit if a way can be found to compel or induce an exchange among competitors. As an industry matures, however, and there become available chemists skilled in the art, competitors are able to operate without access to the secrets of operation of each other, and indeed competition to a considerable extent becomes competition in the field of research and development of new products, new uses and better qualities.

The District Court's own finding is eloquent on the entire subject (FF 78, R. 290):

> "78. From 1933 on there was active competition between NL and DP for customers. There has been a vast increase in sales; and repeated reductions in the price of titanium pigments have taken place and a very few increases. * * *
>
> "NL and DP have endeavored to match each other's titanium products; but each also manufactures certain titanium pigments having special applications not manufactured by the other.
>
> "There is no allocation of territory or customers between NL and DP; and each maintains a large, highly trained technical sales force engaged in endeavoring to sell titanium pigments. To a very large extent the salesmen of the two companies are chemists whose contact with consumers (that is, manufacturers of paint, rubber, glass, etc.) consists in endeavoring to demonstrate that their products merit acceptance on the basis of technical superi-

> ority. The buyers of titanium pigments are mainly well-informed, experienced purchasing agents. NL and DP sell for identical prices; there is no evidence that such price identity is the product of agreement or collusion".

There is an evident distinction between compelling the grant of a non-exclusive license on uniform, reasonable terms, on the one hand, and compelling disclosure of technical information, on the other. The first only removes a barrier otherwise imposed by the legal monopoly conferred by the patent laws. The second removes an incentive to compete.

The fact is that the chief reason the District Court ordered a compulsory exchange of technical information doubtless is that National Lead, for the purpose of getting into a position where it would be able to have the competitive benefit of du Pont's technical information built up during the period of du Pont's total independence under this heading from National Lead, conceded in the hearings on the decree that this would be a proper remedy. Du Pont, of course, has no objection to National Lead disclosing its technical information. But du Pont should not be prejudiced by National Lead's concession.

Nor do we need in this case to contend for an absolute rule against insertion of such a clause in any decree, although we believe that the order by this Court to delete the clause in a case so strongly favorable to the government on the merits as the *Hartford-Empire* case is a decision to that effect. In this case, suppose that the exchange of technical information between National Lead and du Pont had continued unabated until the date of the decree, or at least until the commencement of the suit; it might well have been argu-

able that, under those circumstances, the Court ought to have done what it did here in order that new competition might be let into the industry with equal access to the presumably pooled information. Indeed, this was what the situation was in the *Hartford-Empire* case. The District Court's opinion, 41 F. Supp. at 553, discloses that the exchange of technical information there involved had always been important and continued to be up to and including the commencement of the litigation:

> "The agreement not only divided the fields of wars by giving the container field to Hartford and the non-container field to Corning, but it eliminated the impending competition between Hartford and the Corning interests in the glass making machinery field. In this connection it is well to note that Corning had 'consistently maintained that the contract was *a continual exchange of inventions and developments for prescribed fields regardless of patents*'". (Italics supplied.)

In addition to urging the current importance of the exchange of technical information in the glass industry, the government argued in the *Hartford-Empire* case that compulsory granting was "necessary to give full effect to the licensing requirement and to avoid useless and perhaps costly repetition of experiments already performed" because "patents as complicated as those here involved seldom reveal all of the details essential to the manufacture and operation of the patented invention" (Brief on Rearg. in this Court, 143).

To do as the Court has done in this case, viz. to attempt to compel exchange of secret technical information independently developed which has been withheld, because of

the existence of competition, for more than seven years last past, can only be justified if this Court is in effect now going to say that the *Hartford-Empire* decision was so entirely wrong that hereafter the rule must be that in all cases involving patents under the anti-trust laws, there must be inserted in decrees a provision for compulsory disclosure of the secret technical knowledge known to the parties as of the date of the decree.

And on the specific subject of exchange of information, du Pont's record is a singularly good one. The critical fact is that du Pont terminated all exchange of technical information with National Lead early in 1940. It told National Lead of this decision in the Spring of 1940 (Ex. R. 1926-1939), obtained National Lead's confirmation on April 29, 1940 (Ex. R. 1942), and added further assurance by a formal document as of January 1, 1941 (R. 73). The decisive action was, therefore, taken more than four years before the commencement of this action. In other words, du Pont's decision to terminate all exchange of technical information with National Lead was an independent decision, taken neither under threat of suit nor under compulsion of law nor of national policy.

Indeed, even before 1940 du Pont had strictly limited the field of exchange of information. We have given under the Statement of the Facts a detailed history of that exchange. Summarized, it was that in 1933 the art was still in its infancy and it was impossible for any company to engage in full competition with the American member of the international cartel, unless it could obtain access to the accumulated technical information at that time; that within three years, however, the spirit of competition had developed to the point at which already the parties were

commencing to hold back information from one another (Ex. R. 4309); that in 1937 the parties contractually restricted the exchange of information; and, finally, that by April, 1940, du Pont determined to withdraw completely from any exchange. The effect of its decision was dramatically evidenced by the document in the record which showed that a year later a representative of du Pont, in the hopes of knowing what National Lead was doing, had to reach his conclusion by standing outside the gate of National Lead's plant and counting the number of smokestacks in operation (Ex. R. 4321).

We respectfully submit, therefore, that whatever be the decision as to the merits, the fourth sentence of paragraph 7 must be stricken from the decree.

WM. DWIGHT WHITNEY,
Counsel for Appellant,
15 Broad Street,
New York, N. Y.

GERHARD A. GESELL,
JOHN LOGAN O'DONNELL,
NESTOR SHEA FOLEY,
OSCAR A. PROVOST,
JOHN HANCOCK,
Of Counsel.

January, 1947.

APPENDIX A

KREBS PIGMENT & COLOR CORPORATION

June 28, 1933.

CONFIDENTIAL

W. C. BESCHORMAN, Vice Pres.,
National Lead Company,
111 Broadway,
New York City, New York.

Dear Mr. Beschorman:-

We have considered the various points raised by I. G. in their cable to you with the desire, if possible, to comply with its request.

As you are aware, the Anti-Trust Laws of this country definitely prevent this Corporation from making any commitments respecting the territories of Titangesellschaft and Titan Inc. Further, these several companies are not parties to the Krebs-Titanium Pigment Agreement and so, as to them, we are unable to make any direct commitment. However, since Article II of the Krebs-Titanium Pigment Agreement definitely provides that Krebs is limited both in respect to use and sale to the territories set forth in this Article, we think the result will be eminently satisfactory to your foreign associates. As to controlling the disposition of our products by our customers, we are sure you appreciate the difficulty both from a legal and practical standpoint.

The I. G. request that Krebs grant no sub-licenses or technical aid to others in the territories of the foreign companies, is tantamount to obligating Krebs to grant exclusive licenses. The whole agreement, you will recall, for definite reasons, was placed on a non-exclusive basis. Since all licenses received from Krebs under its foreign patents, are

subject to negotiation, we believe there will be no difficulty in working out a solution that will be acceptable to all parties; it may well be that such negotiations will result in exclusive licenses to your foreign associates. Naturally, we shall treat technical information in the same manner as our patents.

The present form of our Agreement is the result of much care and thought on the part of both parties. It embodies, as we see it, a practicable working basis for both companies, as well as for your foreign associates.

Very truly yours,

C. H. RUPPRECHT,
President.

July 12, 1933

I. G. Farbenindustrie
Aktiengesellschaft
Frankfurt (Main)
Gruneburgplats.

Dear Sirs:

Immediately upon receipt of cablegram of June 22nd from Dr. Jebsen, a copy of which is attached, we took the matter up with the Krebs Pigment & Color Corporation, submitting to them a copy of the cable, and take pleasure in handing you a copy of their reply under date of June 28th. Careful reading of the Krebs letter will surely indicate to you the spirit in which they are entering into this contract and their efforts to meet your views. We feel that experience will prove that such will be the case.

In regard to the phrase "non-exclusive license" to which you call our attention as occurring in Article 5, Paragraph 2, we have to refer to the United States Anti-Trust Laws which absolutely forbid the granting of exclusive license between two manufacturers in the United States as such

a practice would tend to create a monopoly. Therefore, the use of this phrase "non-exclusive license" is simply to comply with the United States Laws and in practice the licenses under each others patents will undoubtedly prove to be, to all intents and purposes, exclusive.

Referring subsequently to the points brought out in your letter of June 20th, under A, B, C, D and E., you will note that the Krebs Company consider themselves limited both as to use, manufacture and selling to the territory granted to them by the agreement. While this agreement does not specifically prevent Krebs from exporting into your territory any products not manufactured under the patents of the Titanium Pigment Company and its associated companies, it will be a difficult matter to discriminate between such manufacture and manufacture under their patents and maintain close and good co-operation, and the practical effect will be that Krebs will refrain from such export.

As to exports by clients of the Krebs Company, we note that Krebs will use all their efforts to prevent any export outside of their territory which would cause any trouble to you in any way.

In regard to licenses, although non-exclusive licenses are specified throughout the agreement, you will note from the letter of Krebs Company that they are not adverse to granting exclusive licenses in case this may be found desirable by you. Under the practice, as we foresee it, these licenses will be given against a nominal payment except in cases of outstanding development.

We also see your point, that by the exclusive license you have given Titan Co. Inc., which has granted exclusive licenses to the Titanium Pigment Co. Inc., you are not in a position to trade with Krebs regarding any American patents belonging to you. However, you may rest assured that your interest in these respects, which are also our own interests in view of our part ownership in the Titangesellschaft, will be fully and completely looked after.

At one time we considered the question of an agreement between the Titangesellschaft and Krebs covering the points in your letter, but have dropped this idea as we felt that you would be better served to have us look after your interests than to complicate the situation with a separate contract.

The only other point in your letter which we do not believe has been covered is your suggestion that the contract be changed from termination in three years to termination in five years. Frankly, there is no possibility of the contract being terminated at any time that we can foresee, and I am glad that you did not make any especial point of this either in the cable or in your letter of June 20th.

May I add that we certainly appreciate your attitude and the views you have put forward in your letter to Dr. Jebsen and trust that you will not be disappointed in the future by following the lines we have suggested. May we ask for further advice from you as to whether the Krebs letter and above make the whole matter satisfactory.

Very truly yours,

W. C. Beschorman,
Executive Vice President.

Copy to—Dr. Kuhne
Dr. Jebsen
Mr. Rupprecht
Mr. Tasker, Vice Chairman, British T. P. Co.

APPENDIX B

ANALYSIS OF THE DISTRICT JUDGE'S OPINION ON THE ISSUES INVOLVING DU PONT SHOWS CLEARLY HIS ERRORS OF FACT AND LAW.

1. The District Judge's Heading II

The issue of du Pont's relation to the international cartel is treated in the portion of the District Judge's opinion numbered "II" and commencing at R. 213.

(a) The District Judge found a sharp deviation and contract between the conduct of du Pont and that of the other defendants, with which du Pont competed.

(*First paragraph of Opinion, R.* 213)[1]

The opinion gives a clear picture of just how the Judge settled the issue. In his opening sentence, the Judge *contrasted* the du Pont case with the National Lead case, saying for du Pont that

> "the facts are by no means as clear"

as for National Lead. The Judge then recognized that:

> "much of the evidence supports its [du Pont's] denial" of "any complicity in the combination".

The attention of this Court is respectfully called to the fact that the Judge was thus not merely pointing out that there was an insufficiency of evidence under many headings. He was saying that there was "much" affirmative evidence to support the denial of "any" complicity whatever.

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[1]These italicized references in parentheses are to the respective paragraphs of the Opinion below, with record references.

This Court will recall that the 1920 agreement was the basis of the cartel. The Judge said not merely that du Pont

> "did *not* subscribe to the 1920 agreement"; [italics ours, in all quotations]

he went on to say that

> "the agreement it [du Pont] did sign, in 1933, *deviated sharply* from the form and from the principles of the 1920 agreement".

This "sharp deviation" was apparent, in that the du Pont agreement provided only for an exchange of non-exclusive licenses under patents with National Lead and for an exchange of technical information, and contained no territorial or other commercial restraint. The Judge further pointed out that:

> "In 1940, it [du Pont] withdrew from the exchange of technological information with NL".

Thus, four years before this action commenced, the agreement between du Pont and National Lead had been reduced to a patent license agreement, without even any exchange of technical information added.

The next question was as to the substance of competition between the two in the United States. On this, the Judge said:

> "It [du Pont] competed with NL for the American market".

(b) The District Judge recognized that if du Pont was a member of the combination at all, it was not a regular member.

The next question was as to the markets outside the United States. On this the Judge said:

"It [du Pont] was never regarded by the Titan group as a full fledged member of their family. Its anomalous position was the subject of frequent discussion and apprehension among the Titan members, and efforts were made to convert DP into a fully conforming member":

On the whole, this was also an entirely favorable decision to du Pont. But the Judge was here (for the first time) shading his decision a bit. While recognizing that du Pont's independence was a source of "apprehension" to the cartel, and that the cartel therefore considered it necessary to endeavor "to convert DP", he did not quite hold that du Pont was completely free of contamination. He held that du Pont was not "a full" fledged or "a fully" conforming member. Here we have a narrow issue between ourselves and the Judge: Whether he was entitled to hold that this admittedly non-conforming and unconverted party [du Pont], which was even causing apprehension to the members of the cartel, must nonetheless be itself held to have been a member to such an extent as to bring down upon it the severe consequences visited by our law on a conspirator.

(c) The District Judge also recognized that du Pont had an alert consciousness of the anti-trust laws, violation of which it was at least seeking to avoid.

(*Second paragraph of Opinion, R.* 213)

—

The Judge, in passing from his introductory paragraph to his analysis of the evidence relative to du Pont, referred once again to the

"sharp contrast"

between the disregard by National Lead of the Sherman Act and the postion of du Pont, which

> "exhibited, from the very beginning of its interest in titanium, an alert consciousness of the anti-trust laws and moved cautiously and under the guidance of trained anti-trust lawyers".

This could hardly in itself be a ground of condemnation of du Pont,—rather the contrary. At least, it was trying to comply with this complex of laws known as the Sherman Act. The point is not without significance on any issue of purpose or intent.

The Judge then posed this question and gave his answer:

> "The question is whether it [du Pont] succeeded in avoiding not only the form but also the substance of transgression".

This seems to admit that du Pont did avoid the "form" of transgression. The thought is that its "trained anti-trust lawyers" saved it from that. That certainly does not permit an inference that it transgressed in "substance". Astute as the Courts sometimes are to separate substance from form, they have hardly reached the stage of imputing guilt in substance *because* none is apparent in form. The inquiry must be whether there is substantial evidence *aliunde* that the substance was indeed different from the form. The Judge himself of course concluded that there had been transgression:

> "I have concluded that it has not [avoided the substance of transgression]; and I arrive at that conclusion by the following analysis of the facts".

(d) The District Judge also recognized that du Pont's purpose and intent was to obtain access to patents and technical information. This was obviously lawful.

(*Third paragraph of Opinion, bottom R.* 213)

The Judge's "analysis of the facts" opened, quite properly, with a consideration of du Pont's *purpose*. We say "quite properly" because the *purpose* of the defendant has always been held by this Court to be of pre-eminent importance in anti-trust cases. Was the purpose of du Pont directed to some commercial objective such as price-fixing or territorial limitation, or was it directed to a subject not repugnant to the anti-trust laws, such as the obtaining of licenses under patents? Here is what the Judge says:

> "DP was manifestly eager to obtain access to NL's patents and skill in the titanium field".

Surely, that also is favorable to du Pont.

The next sentences do not derogate at all from this conclusion, but deal exclusively with the motives and purposes of National Lead, concluding with a statement that National Lead was limited by its agreement with the Europeans that, before National Lead could license du Pont under its patents, National Lead must obtain du Pont's adherence to the principles of the 1920 agreement. But:

> "Such adherence, DP refused. The reasons assigned by DP for its refusal were several, and varied from time to time, but always conspicuous among them was the claim that its adherence was forbidden by the anti-trust laws".

Again, surely a finding entirely favorable to du Pont. The Judge was evidently concluding that whatever its conduct, at least the *purpose* of du Pont was innocent. It

will appear that he failed thereafter to give sufficient weight to this conclusion which ought to have been of paramount importance.

(e) The District Judge further recognized that the 1933 agreement was drawn under the principles established by this Court in the *Cracking* case, 283 U. S. 163.

The Judge then turned to the written contract of 1933 between National Lead and du Pont:

> "In this troubled atmosphere, the 1933 agreement was drawn, after long negotiation, by lawyers who were aware of the then recent decision in the Gasoline Cracking case. *Standard Oil Co.* v. *United States,* 1931, 283 U. S. 163".

(*Paragraph at middle R.* 214)

> "Carefully, they cast the agreement into the form of a settlement of patent disputes".

Again, we ask: What better could they have done than "carefully" to follow the recent decision of this Court? But the District Judge seemed troubled by some idea that the fact that the agreement was a "settlement of patent disputes" must in itself be somehow suspicious. Surely, the agreement speaks for itself, particularly in view of the fact that the Judge expressly *found* that du Pont and National Lead were engaged in a *bona fide* patent dispute (FF 72, R. at 279).

The Judge noted one element in the agreement as "disturbing". Was it some offensive clause, or clauses? Not at all. It was again suspicion, for the "disturbing" element was only that its terms were in the Judge's opinion "vague". But du Pont was unharmed by that, except atmospherically, for once again the Judge drew no direct

inference against du Pont. He did draw an inference against National Lead, because one of its officers wrote that

> "the vagueness in the writing is deliberate and the product of fear of the anti-trust laws".

Du Pont did not have a copy of that letter, and

(*Paragraph commencing bottom R.* 214)

> "Consequently I draw no inference therefrom against DP; but I do draw an inference as to NL's frame of mind in its negotiations with DP".

This is but one of the many examples of a continuing difficulty that du Pont was under throughout the entire trial, in that National Lead and its associates provided documentary evidence that the anti-trust laws did not bulk large in their deliberations; and although this was not known to du Pont, there was a tendency for du Pont to be contaminated.

With du Pont it was just the opposite. It was determined not to violate the law. For example, the Court will recall that in and after 1933 National Lead attempted frequently to explain to its own associates its failure to bring du Pont into the conspiracy by ascribing du Pont's refusal as due to du Pont's concern about the anti-trust laws,—at the same time seeking to cover itself with its associates by suggesting that it would try to prevail upon du Pont to go along anyway. But it never succeeded.

(*First paragraph, R.* 215)

The Judge here turned to evidence outside the cross-licensing agreement itself,—evidence of its negotiation.

(f) The District Judge, however, concentrated attention on two documents—two letters written at the time to prevent the Germans from voiding the license agreement of 1933.

He held that the material evidence reduced itself to two documents, which he set out in the margin (R. 228-231) and which we have reproduced in Appendix A. Before they are considered, it is necessary to understand their background. National Lead had been bound to its foreign associates, by Article XIV of the Contract of 1920 and the other cartel agreements, not to pass on to American competitors information received from its foreign associates unless the American competitors should in turn agree to adhere to the "principles" of the Contract of 1920. National Lead's German associates [I.G. Farbenindustrie and its affiliated companies], the only ones of the cartel who were then in actual production in Europe (Ex. R. 3623), were particularly concerned lest du Pont as a competitor should acquire from National Lead the technological information supplied to National Lead by the Germans themselves and then should export into the Germans' territory products made in consequence of acquisition of that information.

The problem before du Pont was whether to abandon the contract, and thereby to renounce access to the patents and information developed by the cartel and in the possession of National Lead, or whether to make an effort to save the agreement by assisting National Lead to give some reassurance to the Germans. As the cartel and National Lead were obviously in possession of the greater part of all the information in the world about titanium, renunciation of the agreement by du Pont would be in effect an admission that the cartel had a monopoly and that du Pont could not enter into business in competition with it.

(g) But the District Judge recognized that the first document—a letter from du Pont—did not violate the law.

Du Pont therefore set out to find a formula whereby the Germans could be quieted so that National Lead could sign the agreement, but without du Pont itself entering the cartel or making any territorial agreement or commitment. Du Pont accomplished this by writing the first of the two documents in question, a letter from Rupprecht, President of Krebs, to National Lead's Vice-President Beschorman; and the Judge indeed found that in this letter du Pont avoided transgression of the law. He could hardly have found otherwise. In this letter (R. 228, quoted in full in Appendix A), dated June 28, 1933, Rupprecht said that he had considered the various points raised by the Germans; that the anti-trust laws "*definitely* prevent this Corporation from making *any* commitments respecting the [European] territories"; that "the whole agreement, you will recall, for definite reasons, was placed on a non-exclusive basis"; etc. In sum, the letter was a carefully drawn statement that du Pont was prevented by the anti-trust laws from making any agreement or commitment.

The District Judge, we think quite rightly, attached no importance to the few polite phrases in Rupprecht's letter which were evidently meant to let the Germans down easily, for example, "with the desire, if possible, to comply with its [I. G. Farbenindustrie's] request"; that since the cross-licensing agreement with National Lead "definitely provides that Krebs is limited both in respect to use and sale to the territories set forth [North and South America] * * *, we think the result will be eminently satisfactory to your foreign associates"; and the like. It would have served no purpose for du Pont to be rude or unfriendly. What it wished was to get the substance of the rights under the

German inventions and technological development, in so far as they could be learned through exchange of information with National Lead without having to give away anything in return other than general expressions of good-will. And this is what was accomplished.

(h) The District Judge then pinned his decision adverse to du Pont on a single document, one written by National Lead, not by du Pont.

The second document (R. 229, also quoted in full in Appendix A), was not a du Pont letter at all, but was one from Beschorman (Vice-President of National Lead) to the Germans, dated July 12, 1933, of which a copy was sent to Rupprecht. The Judge *based* his decision against du Pont on this letter from National Lead to the Germans, saying:

(*Second paragraph, R.* 215)

> "If DP is bound by the second letter, it unquestionably joined the conspiracy then in effect between NL and its foreign associates".

We pause here to remark that it is a result which at least invites careful scrutiny by the appellate court when in a major litigation the trial court holds a defendant liable for violation of the anti-trust laws, notwithstanding the innumerable important findings in that defendant's favor which we have just reviewed, upon the basis of one document not written by or on behalf of that defendant itself and where, as we will see, the independent proof *aliunde* is wholly dependent upon inference.

(i) That National Lead letter, addressed to the Germans, itself enclosed the innocent du Pont letter which stated du Pont's position. The National Lead letter ought not, therefore, to have been construed apart from the enclosed du Pont letter, or in disregard of du Pont's conduct.

We suggest that, quite apart from the error of proportion involved in ascribing such importance to one letter,

it ought not to have been even construed alone, but with the Rupprecht letter. As Beschorman's letter transmitted Rupprecht's letter, the former ought not to be construed against du Pont independently from and as adding to the latter. Indeed, Beschorman himself opened to I. G. Farbenindustrie by requesting them to read Rupprecht's letter carefully:

> "A careful reading of the Krebs' letter will surely indicate to you *the spirit* in which they are entering into this contract and their efforts to meet your views. *We* feel that experience will prove that such will be the case".

The first of these sentences was obviously sales talk and left the Germans nothing better than what they could obtain from "a careful reading" of the Krebs' letter itself, which, as the Judge himself appears to agree, could not be the basis of a decision against du Pont. The second quoted sentence was merely an expression of opinion by National Lead itself about the future, and as thirteen years have passed since the letter was written, and six years before war broke out, there was ample opportunity to test whether in fact du Pont did thereafter meet the views of the Germans. A full record has been introduced about every sort of detail in the conduct of the industry here and abroad during all those years; and the Judge did not find, nor could he have found, that du Pont did in fact enter into or join the conspiracy during those thirteen years. It is surely out of all proportion that for the full history of thirteen years' experience, there should be substituted a single letter written by a third party, itself distinguished by mere expressions of wishful thinking for the future.

The whole of the Beschorman letter is open to similar comment. Thus, in the second paragraph, he says that to explain why the licenses are only non-exclusive

"we have to refer to the United States Anti-Trust Laws which absolutely forbid the granting of exclusive license between two manufacturers in the United States as such a practice would tend to create a monopoly".

His next sentence opens with "therefore"; but it was a complete *non sequitur:*

"Therefore, the use of this phrase 'non-exclusive license' is simply to comply with the United States Laws and in practice the licenses under each other's patents will undoubtedly prove to be, to all intents and purposes, exclusive".

We can well imagine that Rupprecht never troubled to read the Beschorman letter carefully, or that if he did, he renounced it or said something of this sort to himself: "Oh, well, what difference does it make what Beschorman said? He enclosed our letter and that states our position. We are not committed in any way by what he says".

(*Third paragraph, bottom R.* 215 *to middle R.* 216)

The Judge, in explaining why he attached such importance to the Beschorman letter, gave two reasons, *first,* that Rupprecht had asked Beschorman to persuade the Germans to consent, and *second,* that Rupprecht did not repudiate Beschorman's request.

As to the first, we do not dispute that du Pont wished the contract with National Lead to go through. That was obviously so, as it had made the contract. And the contract, a non-exclusive license, was beneficial to American competitive trade, for it enabled du Pont to enter the field in full competition with the American representative of the inter-

national cartel. Therefore, there can be no vice in the fact that du Pont did wish National Lead to procure the necessary consent.

(j) It was error of law to hold that the omission of du Pont affirmatively to repudiate the National Lead letter constituted du Pont a conspirator.

We submit that the Judge committed a clear and prejudicial error of law when he held that

> "Such quiescence on the part of DP can only be construed as ratification".[8]

[8]The fact that Rupprecht asked or, more accurately, told Beschorman that it was necessary to persuade Titangesselschaft to consent to the proposed form of agreement is, taken by itself, wholly innocuous. By so doing Rupprecht did not authorize Beschorman to convey any promises or "assurances" with respect to du Pont's future conduct. That Titangesellschaft could legitimately and lawfully have permitted du Pont to have a cross-license without any unlawful restrictions on its conduct is clear. A request to Beschorman to persuade Titangesellschaft to act lawfully cannot conceivably be itself unlawful. Therefore, the imputation of Beschorman's letter to du Pont can only rest, if at all, on du Pont's alleged "quiescence".

While the evidence does show that Rupprecht was cognizant of the letter, and there is no direct evidence that Rupprecht, on behalf of du Pont, repudiated anything that was said in the letter, to assume, as the District Judge did, that du Pont had the burden of proving repudiation, and that in the absence of direct evidence of repudiation du Pont failed to carry the burden, is erroneous, as a comparison of the facts in this case with those in the *Interstate Circuit* case, with which the Judge drew a parallel, makes evident.

In the *Interstate Circuit* case, a number of facts existed which were believed by this Court to justify the inference that the distributors acted in concert and in common agreement in imposing restrictions on their licensees in a number of Texas cities. The distributors unanimously failed to tender testimony, at their command, of any officer or agent of a distributor who knew, or was in a position to know, whether in fact an agreement had been reached among them for concerted action. Whereupon, this Court said:

A party cannot be held to have joined a conspiracy because it did not affirmatively object to a statement by a conspirator, unless it was itself *already* a conspirator or otherwise was under a duty to object. Du Pont owed no duty either to National Lead or to the Germans,—certainly none to the latter, who were complete strangers to it. And the Judge himself gave no indication of why there was any duty on the part of du Pont to correct or object to what Beschorman had chosen to write to his co-conspirators in Germany. Du Pont was not interested in the conspiracy. Du Pont

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"When the proof supported, as we think it did, the inference of such concert, the burden rested on appellants of going forward with the evidence to explain away or contradict it. * * * The failure under the circumstances to call as witnesses those officers who did have authority to act for the distributors and who were in a position to know whether they had acted in pursuance of agreement is itself persuasive that their testimony, if given, would have been unfavorable to appellants. The production of weak evidence when strong is available can lead only to the conclusion that the strong would have been adverse. * * * Silence then becomes evidence of the most convincing character." Interstate Circuit v. U. S., 306 U. S. 208, 225-6 (1939).

In contrast, in this case, repudiation could have been done by letter, telephone call or in person, and if either of the latter two methods were employed the only persons able to testify would have been either Rupprecht himself, or Beschorman. However, Rupprecht was dead at the time of the trial and Beschorman was ill and unavailable as a witness. He has since died. Under such circumstances du Pont's failure to prove repudiation by direct evidence is not a proper ground to found an inference of acquiescence.

To the extent that it lay in du Pont's power, du Pont did prove that it did not acquiesce in any "assurances" that it would become a party to the territorial aspects of the conspiracy. Added to the fact that Rupprecht's own letter firmly refused to enter into the conspiracy, is the unimpeached testimony of Jebsen, one of the principals directly concerned in the 1933 agreement negotiations,

had "definitely" refused to participate in the conspiracy. Du Pont was interested only in the license. And the license was perfectly legitimate. It was all that du Pont received.

(k) The District Judge was greatly influenced by his own mistake of fact in attributing to du Pont a phrase used by the Germans in their reply to National Lead, but not communicated to du Pont.

At the outset in his legal analysis, the Judge made a mistake of fact which proved in the end to be very prejudicial to du Pont. In the middle of the same paragraph in which he was discussing the Beschorman letter, and immediately after his conclusion that "quiescence on the part

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who testified most definitely and positively to the effect that Rupprecht made no oral agreement to refrain from exporting at that time (R. 2899, 3047-8), and refused to subscribe to the principles of the 1920 agreement, which, of course, included the principle of territorial restriction (R. 2956-7, 3026-7). The documents also show that du Pont considered the 1933 written cross-licence agreement to constitute the full understanding at that time (Ex. R. 1451, 1463, 1485, 1505, 1509). There is also the enormous quantity of evidence in the record covering the period subsequent to 1933 which indicates that throughout this period National Lead and its foreign associates did not consider du Pont committed to any of the principles of 1920, including the principle with respect to territorial delimitations. Finally, the present head of du Pont's titanium business, Mr. Daley, who succeeded Mr. Rupprecht, testified unequivocally that, to his knowledge, du Pont has always considered itself entitled to export or sell in Europe at any time, and this testimony stands uncontradicted (R. 1167).

Moreover, du Pont was in no event obliged to repudiate Beschorman's letter or to prove that it did so. Du Pont was interested only in obtaining rights under National Lead's patents, a lawful objective. When asked to join in the conspiracy, it repeatedly refused, and its final word, Rupprecht's letter of June 28, in answer to I. G. Farbenindustrie's demands, was unequivocal in such refusal. What National Lead chose to tell its foreign associates was its business and not du Pont's. Du Pont's only obligations were to National Lead. Although there may be cases in which one has a duty to speak and failure to do so is the legal equivalent of ratification, this is not one of them.

of DP can only be construed as ratification", he said (R. 216, line 6):

> "It follows that the assurance that 'Du Pont will loyally respect the territory of TG' which TG discovered in the communications from Rupprecht and Beschorman was an assurance which must be attributed to DP, despite the painstaking efforts on its part to sever the line of imputation. At least then as to territorial delimitations of the titanium pigment business, DP joined the combination".

The Judge was at the time that he decided the case under the mistaken impression that the very damaging phrase "Du Pont will loyally respect the territory of TG" was contained in the Rupprecht and Beschorman letters, or one of them, for he put the phrase in quotes, said that it was "discovered in the communications from Rupprecht and Beschorman", and concluded that it constituted "an assurance" that "must be attributed to DP". If du Pont gave an assurance that it would loyally respect the territory of Titangesellschaft, we agree that it would be a very serious matter. The word "loyally" would evidence membership in the conspiracy and the phrase as a whole would, as the Judge said it would, amount to "an assurance".

Now, as a matter of fact, no officer or representative of du Pont ever did write that phrase, and no officer or representative of du Pont ever saw that phrase (FF 73, R. at 288).

The nearest thing in the record to the quoted phrase occurs in a letter from the Germans [the I. G. Farbenindustrie legal department] to Dr. Jebsen, representative of Titan, Inc., dated August 7, 1933, of which a copy was sent by Jebsen to Beschorman (Ex. R. 1516), ***but was never***

sent to du Pont. It appears in the record in the original German, and also in the following translation:

> "The point of view which the National Lead Co. has taken in the letter of July 12th 1933 signed by Mr. Beschorman, Vice-President, and which appears from a letter from the Krebs Pigment & Color Corporation of June 28th 1933 signed by Mr. C. H. Rupprecht, President, of which also a copy has been submitted to us, does not formally correspond with the wishes which we expressed to you in our letter of June 20th 1933. We note[8] though from these letters the assurance that National Lead Co. and Titanium Pigment Co. as well as their new American Contract Partner, the Krebs Pigment & Color Corporation, will loyally respect the delimitations as regards manufacture, granting of licenses and sale, which are fixed in the agreement between Titan Co. and Titangesellschaft. Relying on this loyal promise, we renounce on the formal confirmation of the wishes expressed in our letter of June 20th 1933 [the letter in which I. G. Farbenindustrie had asked National Lead to require du Pont to agree to the territorial and other restrictive terms of the 1933 agreement]".

It will be at once apparent that the sentence about loyalty and assurances was based on nothing more than a reading of the two documents emphasized by the Judge ("We note though from these letters * * *").

(l) What really happened in Germany, was that the Germans, in order to "go along with" National Lead, indulged in a little wishful thinking about du Pont, not supported by the terms of du Pont's letter.

If the Germans misread du Pont's letter, that surely is not evidence against du Pont, at least in the absence of

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[8]Jebsen testified (R. 1021) that a better translation would have been "deduce".

du Pont being shown the Germans' letter. So much the better for American trade and commerce if du Pont, as it did, in fact obtained a non-exclusive license and access to the technological information of National Lead, as a result of the Germans' either misreading the letters from America, or (as is more probable) as a result of the Germans arguing themselves into such a misreading in order to save their face in withdrawing their objection.

Although we consider it all immaterial and irrelevant so far as du Pont is concerned, the fact that the Judge based his opinion upon this German communication impels us to go into the record to see what really happened in Germany. The story is told by Jebsen. On the face of his letter to National Lead enclosing the I. G. Farbenindustrie letter (Ex. R. 1513), it appears that he had seen a draft of that letter in advance and had had several telephone conversations about it, and had indeed "suggested some changes". Apparently Jebsen was involved in a selling job to win over the Germans, notwithstanding the fact that they were not getting from du Pont what they had expected to get.

Jebsen told the story fully on cross-examination both by the government and by du Pont. The gist of his story was that it was his duty as a representative of National Lead to try and get the Germans to feel happy; that the Germans in turn wanted to accommodate National Lead; that although they recognized that the relationship with du Pont was very different from the basic principles presented to them by National Lead in 1927, he prevailed on the Germans to go along in the hopes that they would later get du Pont in line. That showed that the Germans went along, not because they got what they wanted, but because on the whole they concluded that they should not break

with National Lead, and became convinced that they should go on in the hopes that du Pont would be brought into the conspiracy later. (A full review of Jebsen's evidence on this subject appears later in this Appendix.)

There is no justification, therefore, for the finding that du Pont entered the conspiracy in 1933.

And even the Judge did not hold that it entered the conspiracy later.

(m) And, regardless of what happened in Germany, it was error of law to base a decision on it against du Pont.

An additional and independent point is that, regardless of what motives moved the Germans, and regardless of what they deduced from American writings, it was error on the Judge's part to found a decision against du Pont on the basis of what the Germans did or thought, as evidenced in a communication that was never even shown to du Pont (FF 73, R. at 288).

(*Paragraph at middle R.* 216)

That the Judge did erect his structure upon this error appears in the next paragraph of the opinion, in which he draws his inferences. Immediately after his citation of the *Masonite* case, the Judge was forced to recognize:

> "It may well be, and I take it as a fact, that in giving the assurance not to manufacture in or sell in TG's territory, *DP was not making a promise;* * * *"

The Court will observe that this was on the ***assumption*** that du Pont had given such an assurance, which assumption itself was unsupported, as we have just seen.

(n) Indeed, the District Judge expressly held that du Pont did no more than give expression to its then [1933] business policy not to export to Europe.

The Judge held that the assurance that he mistakenly supposed that du Pont had given did not itself amount to a promise:

> "it was doing no more than giving expression to its then existing business policy not to manufacture or sell in Germany and other TG territory; and it may well be that in any event DP could not successfully compete in Germany."

Here we have the Judge's definite finding: That du Pont, at its maximum, was ("no more than") "giving expression to its then existing business policy not to manufacture or sell in Germany and other TG territory". The Judge's later statement that du Pont *might have* competed in other territories adds no more to this.

(*Bottom R.* 216)

The Judge next said:

> "Legally, it [the defense that du Pont was only stating its existing business policy] is insufficient,
>
> because concerted abstinence from commerce is proscribed even where there are valid unilateral reasons for abstaining; and also
>
> because DP's assurance, in part, formed the consideration for the continued abstinence of the European producers from exporting to the United States".

There is no basis for the Judge's insertion of the word "concerted" in the first sub-paragraph, since du Pont made a unilateral statement of its existing business policy, a

policy which we have seen found strong support from economic and business factors which prevailed. As to the second sub-paragraph, the Judge's conception that the du Pont statement of present intention had some sort of decisive effect in Europe was expanded upon in the next succeeding paragraph of the opinion, and provided the only ground upon which the Judge based any finding that the *effect* of what happened in 1933 was actually to constrain trade in any way.

(o) A statement thus innocent in itself does not become unlawful because people abroad, unknown to the maker of the statement, proceed to act upon a misconstruction of it.

(*First paragraph, R.* 217 *at line* 3)

The Judge suggested that "In a very important way, DP's assurance closed the breach which was in the making in the wall built around the titanium business by NL and its foreign associates. It also removed the last obstacle to the establishment of a commercial collaboration between the Titan group and the Blumenfeld companies".

Even if it were true that the effect of what du Pont did was that the Titan group and the Blumenfeld group were brought together, and that some breach between them was healed, that would be no ground for a decision against du Pont. It has been universally held by this Court that it is not every "effect" that causes liability under the anti-trust laws, but only every "necessary" effect, the reason being that it is essential to show illegal purpose on the part of the defendant, and that such purpose may be inferred if the conduct under review had a *necessary* effect. The District Judge, in misapplying this established rule of law, overlooked his own wise dictum that *"Post hoc, propter hoc,* is

an invalid argument whether used by the plaintiff or the defendant" (R. 208).

The only legitimate inquiry should have been whether the two documents which the Judge was considering would have the necessary effect of healing a breach between two European groups and bringing them together under a single combination. No such finding could possibly have been made, as there was no reason for Rupprecht to have foreseen such an unconnected result (assuming it to have occurred, which we deny) of the two documents in question. The inquiry, therefore, whether that did happen as an effect of the two documents, ought never to have been entered upon by the District Judge.

(p) And the statement did not in fact have the effect that the District Judge imputed to it (elimination by agreement of competition between the two groups inside of Europe).

Assuming for the purpose of the argument that it was legitimate to enter upon the inquiry as to what happened in Europe, there is no support in the record for a finding that what du Pont did or did not do in 1933 had the effect of bringing the two European groups together. The history of their negotiations over the years before and after 1933 is fully set out in the record, and the references to du Pont are but incidental and are generally to the effect that it is too bad that du Pont refuses to cooperate and that an effort should be made to bring it into line. This was as true of 1933 as of the later years.

The documentary history of the European cartel has been reviewed under the Statement of the Facts, *supra*. We need here refer only to a single document; and this Court's particular attention is respectfully called to the dates involved. Ex. 266 (Ex. R. 1474) was a letter from Jebsen

to Beschorman dated June 23, 1933, with annexed copies of a letter from I. G. Farbenindustrie to Jebsen and of a cable from Jebsen to Beschorman. The I. G. Farbenindustrie letter (dated June 20) and the cable (dated June 22) are important in another connection, in that they set forth the conditions which I. G. Farbenindustrie was proposing that National Lead must impose upon du Pont before consenting to the 1933 agreement. This was the letter and cable to which the document relied upon by the Judge, the Beschorman letter of July 12 (Ex. R. 1491), enclosing the Rupprecht letter of June 28 (Ex. R. 1483), was the reply. Nothing that happened before those letters were sent could have been the result of them.

Ex. 266 gives a detailed description of a meeting at Frankfurt on June 19 between Jebsen, the I. G. Farbenindustrie officials and the representatives of the company "Aussig" of Czechoslovakia, which was the Central European company of the Blumenfeld group that threatened competition to I. G. Farbenindustrie. It was this threatened competition that is described by the Judge in his opinion as constituting a "breach which was in the making in the wall built around the titanium business by NL and its foreign associates", the healing of which he charged to "DP's assurance". Ex. 266 is decisive in showing that the Judge was chronologically in error. The exhibit, after naming all of the people present at the meeting of June 19, proceeded (Ex. R. 1474):

> "The agreement between Aussig and Titangesellschaft was discussed and the main points agreed upon,—details to be worked out by Mr. Schaeffler and Mr. Borgwardt" [subordinates of Aussig and I. G. Farbenindustrie attending the meeting].

[Evidently the Aussig people at that point left the meeting, the main points of their agreement having been settled, and whatever breach there was between I. G. Farbenindustrie and its Blumenfeld competitor having thereby been healed.]

"*Afterwards* the same gentlemen from IG discussed with me the draft agreement Titanium Pigment Co./Krebs".

This destroys the Judge's theory that it was the so-called "DP assurance" which accomplished the "commercial collaboration" between the Titan group and the Blumenfeld companies. Elimination of this point removes from the Judge's opinion any *effect* of du Pont's alleged "assurance", even assuming that there had been such an assurance.

Ex. 266, convincing though it is, does not stand alone. There is ample evidence in the record that the Titan-I. G. Farbenindustrie group and the Blumenfeld-Aussig group were always determined to work together, in accordance with the cartel system which was nearly universal in Europe in those years. The European groups were not waiting for du Pont, or anyone else in America, to assure them that they were not proposing to export or to do anything else from America. If they had been waiting, they would have been far more likely to effect a "commercial combination" among themselves if they had been told that du Pont was going to export, as they would then have needed to combine their forces to meet the threat.

(q) If the du Pont statement could have been anticipated to have any effect in Europe, it would have been just the opposite.

If the statement by du Pont that it was not then its intention to export would have had any *necessary effect* upon the

Europeans' action, it would have been to reassure them that they could afford to remain independent of each other, because not needing to close their ranks in order to meet a common enemy from America.

The Europeans did not, therefore, close their ranks because of threat of competition or otherwise. They closed their ranks for European purposes, regardless of America, as reflected in the many exhibits showing their meetings among themselves. See Statement of the Facts, *supra*.

(v) The District Judge drew the same inference from the oral testimony as from the documents—no promise by du Pont, only an explanation of du Pont's already existing policy.

(*Middle R.* 217)

Before concluding this paragraph, the Judge referred to conversations between Rupprecht and Blumenfeld: There were only two such conversations, the first in 1931, and the only one of any conceivable importance being in July of 1933. Blumenfeld was produced by the government as its principal witness. It was quite obvious that he was trying to please the government.

Although we think that no reliance whatsoever can be placed upon Blumenfeld's testimony, we do not really need to go further than to accept the Judge's own evaluation of it, which is shown in the first few lines of the concluding sentence of the paragraph under consideration:

> **"From the somewhat conflicting testimony as to the nature of Rupprecht's conversations with Blumenfeld, I conclude that Rupprecht made no promise; but that he did explain to Blumenfeld DP's policy with respect to the European market".**

to which the Judge once again tacked on the same adverse inference as to du Pont policy which we have shown had no support in the record,

> "a policy made unilaterally in many respects, but undoubtedly strengthened and territorially extended as a result of the assurances to NL".

Here the Judge was merely returning to his main theme, and was emphasizing by repetition his findings that

(1) Du Pont's representative made no promise; but

(2) He did explain du Pont's existing policy with respect to the European market.

(e) Du Pont had "valid unilateral reasons"—thus described by the District Judge—"for abstaining" from the fruitless effort to invade the European market of 1933.

We have seen that du Pont had its own reasons for its decision as of 1933 not to seek to enter the European market (had, as the Judge himself recognized, "valid unilateral reasons for abstaining", "a policy made unilaterally in many respects"). That the Judge did not recognize that du Pont's own business decision was the sole cause, is again shown by these quotations to have arisen out of his mistake of fact in thinking that there was evidence that du Pont gave some "assurance" to the contrary. As we have shown, and as appeared in detail on the review of the evidence in our Statement of the Facts, it is just not the fact that du Pont ever gave any "assurance". Indeed, a curious thing is that the Judge himself had so decided when, a little earlier in the opinion, he had held "as a fact" that in doing what he called "giving assurance" du Pont was doing "no more than giving expression to its then existing business policy not to manufacture or sell in Germany and other TG territory".

It thus appears, not from a single quotation, but from a repetition in different forms of precisely the same ideas, what the Judge's mental process was. Again and again he was making very strong findings in favor of du Pont, both that all it did was to explain to the Europeans that in truth and in fact in 1933 it did not have a policy of exporting to Europe, and that in truth and in fact that policy was its own unilateral policy. But he was then shading those conclusions by suggesting that these statements constitute some sort of "assurance", and from the shading he was drawing inferences about "concerted abstinence from commerce" and consequent "consideration for the continued abstinence of the European producers from exporting to the United States". But these unfavorable inferences find no support except in the single erroneous belief that there had been an "assurance" that "du Pont will loyally respect the territory of TG" and, as we have seen, that is traceable only to a letter from Titangesellschaft itself, which was addressed to another member of the conspiracy and was never even shown to du Pont.

It becomes increasingly apparent how du Pont became the victim of the dangerous technique of a modern conspiracy trial. The government was free to introduce a mass of evidence consisting of communications between the various members of the cartel. One of these communications was the German letter in question. When thinking about du Pont, the Judge's mind was colored by that communication. As it were, his mind was poisoned at the source by the government. The consequence was that, although he recognized, and repeatedly recognized, that du Pont was only stating a fact and not making a promise, and that that fact was one reached by du Pont's independent and "unilateral" decision, the poison remained.

Du Pont has been held, not for what it either did or said or decided, but because of some misconstruction put by some German on what had been communicated to the Germans by National Lead about du Pont.

(t) The evidence was unequivocal that the Europeans remained discontented with du Pont's position, and that du Pont never changed it (from 1933 on).

(*Second paragraph, R.* 217)

The next paragraph of the opinion is that in which the Judge deals with what happened subsequently to 1933. Our submission is that the straightforward way to deal with this is to recognize that events subsequent to 1933 confirmed that du Pont had not in fact joined the conspiracy. The Judge's language does indeed seem to indicate that he accepted that submission; but again his acceptance is a grudging one. The most reasonable and consecutive history of the 1933 events was that given by Jebsen. Here is what the Judge said of it:

> "This description of DP's position in 1933 is consistent with subsequent developments. To Jebsen, devotee of the precise covenant, advocate and practitioner of clarity and definition in language and obligation, such vague and Janus-faced language [as Rupprecht's] was a source of disquiet and apprehension".

Here the Judge is telling us that the principal architect of the conspiracy had "disquiet and apprehension" about du Pont's position; that Jebsen found no satisfaction in Rupprecht's language. Why the Judge should describe Rupprecht's language as "vague and Janus-faced" would be inexplicable, in the face of the Judge's own repeated state-

ment that it was "no more than giving expression to its [du Pont's] then existing business policy", were it not for the continued working of the poison (the misconception that du Pont had given some "assurance" about "loyally", respecting the territory, etc.); but if Jebsen had heard from du Pont itself an assurance of loyalty, how could he possibly be in the mood which the Judge describes in the next ensuing sentence of the opinion:

"But he [Jebsen] hoped for the best"?

If Jebsen had an "assurance" of "loyalty" from du Pont, he would not have been compelled only to "hope". Indeed, the Judge himself said that Jebsen "appraised DP as an organization that would not repudiate an unwritten obligation". An "assurance" from that organization would have given rise to more than "hope". The reason that there was only "hope" was that there was *no* "unwritten [or other] obligation". We respectfully submit, with great respect to the learned Judge, that in these sentences he has conclusively revealed his own misinterpretation of the facts.

The Judge himself had held that du Pont made no "promise" or "agreement". How then could it have an "obligation"? That the Judge said it had, is useful only as showing how the Judge's mind leaped ahead to some inference against du Pont, inconsistent with his own reference to Jebsen's mere "hope". But the Judge did not need to resort to inference, for Jebsen testified at length, and was cross-examined by the government. Moreover, voluminous contemporaneous writings by him are in evidence. Far from showing that he considered that du Pont had assumed an unwritten obligation, they show his constant concern because of the fact that du Pont had *not* assumed any.

(n) Jebsen, the principal architect of the conspiracy and principal witness in the case, explained that he never had more than a "hope" that du Pont might be induced to join, and that he never succeeded in bringing it into, the conspiracy.

The Judge described Jebsen (R. 217) as

> "devotee of the precise covenant, advocate and practitioner of clarity and definition in language and obligation".

The Judge said this after both hearing Jebsen on the witness stand, and after reading about 200 exhibits written by Jebsen and covering more than 750 pages of the record, all introduced by the government itself. It must be taken, therefore, that what Jebsen said was the truth and that the government was bound by what he said; indeed, no one was better qualified than he, as he had been the principal activating figure in the whole business from his original inventions thirty years ago right down to the present. Unlike Blumenfeld, who was an old man speaking poor English, Jebsen appeared on the witness stand as a vigorous figure, speaking clear English, as indeed he had written it over the thirty preceding years ("advocate and practitioner of clarity and definition"). Jebsen made repeated trips between Europe and America throughout the period, and he saw Rupprecht both in 1933 and 1938 in an effort to bring du Pont into the cartel. No one was better qualified than he to answer the ultimate question: Whether du Pont became a member of the cartel.

Taking up at once the situation in 1933, Jebsen first foresaw with perfect accuracy what the I. G. Farbenindustrie was going to say about the proposed non-exclusive cross-licensing agreement between du Pont and National Lead, viz. that du Pont must agree to the cartel principles

of the Contract of 1920. He wrote to Thompson of National Lead two letters to this effect on March 1, 1933 (Ex. R. 1430 and 1436). He then met with the I. G. Farbenindustrie people and had his views confirmed (Ex. R. 1474-1475), and cabled the confirmation (Ex. R. 1482). He then traveled to America for the purpose of attempting to convince du Pont.

We here set up Mr. Jebsen's testimony on the subject, in narrative form. Where phrases are repetitious, we eliminate the repetition, but are satisfied that we are following closely the substance of what was said and using Jebsen's own phraseology:

Under examination by Mr. Webster for National Lead (R. 961-2):

> "Mr. Rupprecht did not, either in 1933 or ever, accept the provisions of Article XIV of the 1920 agreement. I never got him. He was too slippery for that, quite frankly".

Under examination by the Court (R. 962):

> "The substance of my conversation with Mr. Rupprecht in 1933 is more or less expressed in this letter he wrote [Ex. R. 1483]. He said that, after all, we haven't exported to these countries, you are protected by patents in these countries; how can we export? And I think the whole thing will work out to be eminently satisfactory to you. He talked about the non-exclusive license, which I didn't like at all and which I couldn't see the reason for. He said that it was a rule from the executive committee or finance committee [of du Pont] not to part with any property entirely; he would have to put it up to the executive committee, and he thought that the approval would not be given. He used that execu-

> tive committee as something which he could not work up against. Frankly, I thought National Lead should not accept the treatment of that kind. But, nevertheless, at the same time he said it would work out satisfactorily. Beschorman [of National Lead] expected a certain amount of advantage in getting technical information and engineering service and so on from the du Pont Company. I think he and Thompson [of National Lead] were rather fascinated by the big du Pont Company and so on, which I think I wasn't quite so impressed with. But, finally, after all, I was an employee of the National Lead Company, and found that I would have to help the matter along and be a good soldier."

In other words, du Pont refused to do more than (1) exchange a non-exclusive license and (2) state that it had not been engaged in export business; and not being licensed therefor, how could it be? Jebsen was dissatisfied, thought du Pont's arguments against joining the cartel unconvincing, and thought National Lead ought to stand up to du Pont. But unable to convince National Lead, Jebsen had to accept du Pont's refusal. Under cross-examination by Mr. Dixon for the government, and by the Court, Jebsen did not change his evidence. He only made it more precise (R. 993-5):

> "This July meeting was the first time I had met Mr. Rupprecht. I was trying to get Beschorman to get Rupprecht to see the difficulties we were encountering with regard to the IG. I wanted to persuade Rupprecht to go along on the territorial arrangement and on the technical exchange [with the Europeans], and to get as far as I could to accept the 1920 agreement. He [Mr. Rupprecht] had too many answers in one way. One moment he talked

about the executive committee, they would not accept that kind of thing. At another moment, he said, 'You are secured against any invasion from us through your patents', and so on. At the third time, he said, 'For legal reasons'. Now, with regard to legal reasons, I couldn't take that serious. With regard to the other things, I found it very difficult to take those serious too; but at the same time my impression was that he had a desire of trying to accommodate us and he was trying to paint a picture in that direction, that there wasn't anything to be feared. But I didn't get, what I would say, down from sound to things, to get down to some definite understanding. So, to me of course the question was, in sending these letters back to the Germans, what shall I say? I felt on the one side I had to be a good soldier, and at the same time I thought this may work out all right when the time comes. So I just wrote a few words to the Germans trying to convey that opinion. I only had the one conversation with Mr. Rupprecht. It may have been an hour, it may have been two hours; I can't say. I was not satisfied by what Mr. Rupprecht said. I did not feel happy about the thing. I was satisfied to the extent that he had been able to sell himself to the extent that I believed that there might work out something as he called eminently satisfactory. I was hoping that as time developed I might be able to get him to understand and sooner or later fall in line. It was a matter to me of further development. I felt I was lost practically at that time."

Under cross-examination by Mr. Dixon for the government (R. 996):

"Q. Were you satisfied when you left the meeting with respect to the action of Krebs in respecting

the territorial limits of the Titan companies?—A. I was hoping——".

Under cross-examination by Mr. Dixon for the government (R. 998):

"I was endeavoring to get Mr. Rupprecht to understand the principles of the 1920 agreement. He was always very evasive. I was not satisfied that he understood".

Under examination by the Court (R. 1004-6):

"My general impression from that time was that I was very dissatisfied really with the situation as it was. I had to act as a good soldier. And I was trying to convey the situation to the Germans with the idea of being neutral or of being diffident. * * * If you look back at it, I felt at that time, I felt that I was in a very difficult position, and I felt that on one side my personal interest was not very much of doing this thing; on the other side, National Lead wanted to have this thing through, so my intention was to put the responsibility on Beschorman and National Lead as much as possible".

Under cross-examination by Mr. Dixon for the government (R. 1021-2):

"If there had been any oral understanding—some explicit discussion between Rupprecht and myself in that meeting with Beschorman, I think it would have been natural for me to go to the Germans and explain that. Whereas I didn't pay any visit to Germany at all. In other words, I left the weight of the thing on the correspondence as it was".

Under cross-examination by Mr. Whitney for du Pont (R. 1027):

> "I have never discussed my testimony with you or with any other representative of du Pont whatsoever".

(At R. 1030, *et seq*);

> "I did not take seriously what Mr. Rupprecht said about legal reasons, because, after all, when a man puts forward three or four different things and they are contrary to what was arranged between the National Lead Company and the European companies, because after all they had been accepted over here [in America], you could not ask me to take it serious. In other words, I had understood that the 1920 structure was legal under American law and therefore when Mr. Rupprecht gave me that reason I thought that he was trying to put forward an excuse to stop me. I found it very difficult to take serious too the other explanation with reference to the Executive Committee. Where the patent protection was concerned, I could use my own judgment, but when you come to the Executive Committee, that seemed to me to be just an excuse. I thought that the thing was important enough to get the Executive Committee to accept the matter. I thought it was a very highhanded way and I think I even wrote Mr. Beschorman at one time too about this Executive Committee and about the manner Rupprecht dealt with these matters; that the negotiations ought to be with the Executive Committee then if there were higher interests which we could not touch. I felt reassured to some extent, with some doubt, to be quite frank, at the same time. I mean I could not say I was entirely relieved. There was a certain vibration in my mind, so to say. I was not

entirely happy about it but I thought we would have to take a chance.

"I think you will note from various of this correspondence that I steadily came back and tried to get Rupprecht in line and did not get him in line. He was trying to be friendly and re-assuring, to relieve my mind, and I was trying to get him down from sound to things, down to a matter of fact instead of talking. The impression that I sought to convey to the Germans was the impression of we should take the chance. But I did not feel happy about the thing. My duty to National Lead made me feel that I ought to do what I could to make the Germans give their approval to sign this agreement. I would like to take a neutral attitude as to how they should feel about it. As a business man, as a representative of the National Lead Company, of course it was my duty to try to get them to feel happy, but at the same time I did not want to take more responsibility than absolutely necessary. I did not feel that it was my duty to give them a precise analysis of what I really thought. I left that to them, and personally I think they knew what they did when they wrote back their letter. Their position was, as far as I understand, always, without having talked with them, but I am just reasoning, but from my talk in Frankfurt before I went over, that they wanted to accommodate the National Lead Company.

"I felt uncertain about the future. I had not got as clear a basis as it was desirable to have vis-a-vis the Germans and vis-a-vis the whole thing. I wanted to get du Pont down to the 1920 agreement but I could not get them. Mr. Rupprecht was slippery and elusive and left me in doubt. I was hoping that as time developed I might be able to get him to understand and sooner or later fall in line. The

hope was that I might have to further develop the opportunity to get Rupprecht to accept the sound principles. I was not reassured; I was lost at that time. I was doubtful, but hoping. My general impression from that time was that I was very dissatisfied really with the situation as it was.

"The position was difficult for me. After all, we were asking the Germans to accept the position or relationship with du Pont which was very different from the relations we had, the basic principles that we had presented to them in 1927. It put me in the necessity of trying, in effect, to get the Germans to accept something which I did not like. At the same time I thought we should take the chance. We had not gotten down from sound to things—the thing was too indefinite in certain respects, if you understand what I mean. If it had been left to me to decide what National Lead should do, I would not have made that agreement—I mean the agreement of 1933.

"I was still in hope and planning for future developments. To put it more explicit, hoping that as years went on, as one got to know each other better we will get the du Pont Company in line."

We submit that the line of answers was remarkably consistent, whether to the Court, government counsel or to du Pont counsel, and that Jebsen was saying this:

(1) Du Pont's agreement was so inconsistent with the principles of the cartel that I would not have made it myself.

(2) I tried to convince Rupprecht to adhere to the principles of the cartel, but he was slippery and evasive, and refused to agree.

(3) Rupprecht gave me two reasons why he would not agree. First, he said that the Executive Committee of du Pont would approve only a non-exclusive license. Second, he said that he was prevented by the anti-trust laws. I was not satisfied with either reason. As to the Executive Committee, I thought that National Lead ought to be entitled to speak directly to the du Pont Executive Committee in order to convert them to the principles of the cartel. As to the anti-trust laws, I thought Rupprecht must be wrong, as I had been told by National Lead that the whole 1920 cartel set-up was legal under American law. Therefore, I thought that Rupprecht was only making excuses.

(4) Rupprecht did say that his Company had not exported to Europe, and asked "how could it?" as it was not licensed under the patents in Europe. But he would not make any promise or agreement, and I was not satisfied.

(5) Rupprecht was trying to be polite and reassuring in manner ("sound", not "things", i.e. "talk", not agreement). I felt that as far as accomplishment was concerned, I was lost.

(6) I was prepared to go on hoping that at some time in the future I would have an opportunity to develop the matter further and get du Pont into line.

(7) I was, therefore, very embarrassed in communicating with the Germans, as I knew that from their point of view they ought not to be satisfied, but it was my duty, as an employee of National Lead and as a good soldier, to try to bring them around.

(8) I think that the real reason that the Germans consented was not that they were convinced, but that, just like me, they wished to accommodate National Lead, and were willing to go on hoping that as time developed du Pont might be brought into line, although in 1933 we were failing to bring them into line.

(9) In subsequent years, I steadily came back and tried to get Rupprecht into line, and I did not get him into line.

If these be the right conclusions to draw from the Jebsen testimony, the Judge made an erroneous decision in this case, and the decision must be reversed on the merits.

It is, of course, universally admitted that du Pont never thereafter was brought into line.

(v) And after 1933 repeated efforts to bring du Pont into line only resulted in failure. It remained outside the conspiracy.

We need not here recount all of the references in the Jebsen correspondence after 1933 to the fact that du Pont was not in line and ought to be brought into line. One or two examples will suffice. The Court will find a full brief of Jebsen's complaints against du Pont, addressed by him to Beschorman under date of January 4, 1935 (Ex. R. 2953). The letter opens with a lecture on the avoidance of competition, that commercial competition is avoidable by dividing markets and technical competition by application of the principle of exclusivity. Jebsen points out that these are the principles that govern "our agreements", and from which the du Pont agreement radically deviates. "At present", Jebsen argues, "we have a better opportunity than at any other time to bring Krebs to our views because

of their infringement of Titan Co.'s patents". Our aims should be to "get the relations with Krebs as far as possible in line with the ideas and conditions laid down in article XIV of the license agreement of 1920". There follows an explanation of why Jebsen cannot believe that the anti-trust laws are an obstacle, for if so "both your and our lawyers would then have been wrong in 1920 in forming Article XIV". Complaint is also made about the du Pont rule against giving up manufacturing rights in any country and granting exclusive licenses, and once again it is suggested that there should be a direct assault upon "Dupont's financial committee". The letter recognizes that, as a practical matter, du Pont cannot compete in Europe: "Personally I am inclined, as far as Europe is concerned, to agree with Mr. Rupprecht that there is no possibility of the reservation [of a non-exclusive license by du Pont] becoming of practical importance, but why then make it? It seems high-handed". Jebsen points out the opportunity to du Pont: "If the agreement provides satisfactorily for no competition between the parties, I think our companies will be inclined to a cooperation as full and open as possible in the same lines as we have between our companies".

This letter was followed immediately after by another of similar tenor (Ex. R. 2961), to say that the Germans were in agreement that they would "welcome an arrangement by which Krebs 'enter into the family by whole-hearted cooperation' ".

Surely it is difficult to sustain the decision below that all the time that these letters were being written, du Pont had already become a member of the "combination or 'conspiracy".

Similar expressions will be found in Jebsen's letters in each of the ensuing years. But 1938 brought matters rather to a head, as Jebsen was in that year beginning his second effort to argue to Rupprecht directly. His assault opened with letters to the National Lead official who had been designated to handle patent matters (Mr. Kaegebehn) and of these a letter to Kaegebehn of February 2, 1938 (Ex. R. 3029), is a fair sample. Complaining that "The existing agreement between National Lead Company and Du Pont is a deviation from the 1920 agreement and, as you say, inconsistent with the principles laid down in this", it commences with a statement of the procedure by which the effort should be made to bring du Pont into line. A few weeks later, Jebsen was on March 8, 1938, writing to a senior officer of National Lead (Mr. Garesche) along the same lines (Ex. R. 2543). Referring to "the Du Pont's agreements' inconsistency with the agreements of the National Lead group", and using as a contrast the agreements with Canada, and as supporting argument that once again the Germans have now brought the matter up, Jebsen complains that du Pont may possibly get access to group knowledge through some cross-licensing agreement with the Canadian company, and argues that either a precaution should be taken to limit the Canadian company in any information that it might pass on, or "By a revision of the arrangement with Du Pont bringing this company wholeheartedly into the family. I hope this last will come off".

Again, we ask, how could this correspondence possibly have existed, if the Judge had been right in holding that du Pont became a member of the combination in 1933?

Jebsen then came to America in 1938 to make the effort. There are several long memoranda in the record, prepared

by Jebsen and Kaegebehn, showing what they hoped to pin du Pont down to. Some suggestion was made at the trial that they obtained du Pont's agreement to their wishes, and that du Pont repudiated them after the meeting. We think the suggestion unfounded and that there is no evidence that Rupprecht ever agreed to them even temporarily. In any event, all parties agree, as the Judge agreed, that if du Pont (through Rupprecht) ever did agree to the proposals, it certainly repudiated them immediately after the meeting. The story is best told in Jebsen's own words on the witness stand (R. 1039-1041), which we give here in the same style as the former quotations from Jebsen's testimony:

> "I came over to America in the summer of 1938. I certainly was very dissatisfied with the development of the relations with du Pont. I arranged to make a trip to Wilmington with Mr. Kaegebehn to see Mr. Rupprecht and Mr. Hancock. After I went to lunch with Dr. Sparre, a high official of du Pont and the head of its development department. The talk was more or less repetition of what du Pont said several times. You never got to the grip of things. I had one object particularly in mind and that was the following:
>
> "During the years that had passed when we negotiated these license agreements it was a very tedious thing for me. I wanted some kind of an understanding or agreement on a standard form for license agreements if and when such were to be exchanged. * * * Naturally at the same time I discussed the matter in general again, as I had done before, trying again to get Rupprecht into line, because he had never been in line,—and there was the same kind of evasions. If I remember right when I left I thought we had got Rupprecht and

Hancock to accept this idea of trying to standardize this license agreement form if and when we agreed upon licenses, but I think the following correspondence did not bear that out—as usual with Ruprecht.

"Then we had lunch. We did not talk business during the lunch, but leaving, and going down the elevator, there is one thing which I remember very distinctly because it shocked me. It gave me a little sho(ck), so to say. I said to Dr. Sparre in the elevator that what I am aiming at, Dr. Sparre, is to get as close cooperation as possible between du Pont and our companies, and he said, 'Not too close, Dr. Jebsen; not too close'. And I was puzzled somewhat at the same time about it. But that was all, and I left to take the train. I have never seen Sparre since then."

Mr. Dixon for the government went into the subject on re-direct examination, but only to bring out that, in fact, du Pont did not export during the years in question. He made no attempt to check the testimony of Jebsen, which stands uncontradicted, that he never succeeded in bringing du Pont into line with the "principles", which was his word to describe what our laws describe as the "illegal combination and conspiracy".

If the Judge had thought it important to make any reference to the five individual license agreements between Titan, Inc. and du Pont (Ex. R. 406, 412, 455, 470, 486), executed in the successive years 1937-41, this would perhaps have been the place to have done so. He evidently did not think them important; nor do we. The only point upon which we differ with his view of them is that he found as a fact (FF 88 and 89, R. 300-301) that although they were executed in five different years and related to different spe-

cific individual patents, they were all executed pursuant to a single oral agreement that that would be the practice. There is no evidence to support that finding, and we think that it cannot stand in the face of the only evidence on the subject, to-wit: (1) documentary evidence of the separate individual annual reports on the subject by Rupprecht on behalf of the pigments department to the Executive Committee of du Pont (Ex. R. 4220, 3043, 4224, 4231, 4238), which show on their face that each was independently considered and that there was no connection between them, and (2) the oral testimony of Jebsen, who was explicit in his statement that he did wish for one general agreement but that he was unable to obtain that result. The significance of the point is only that du Pont, as usual wishing to confine its agreements to specific patent subject-matter, and not to have any general understandings with the cartel, was insisting that each license be considered on its individual merits. Jebsen's testimony is as follows (R. 1040-1041):

> "I had one object particularly in mind and that was the following: During the years that had passed when we negotiated these license agreements it was a very tedious thing for me. Things were negotiated with Kaegebehn over here and everytime Mr. Hancock or somebody down there,—he wanted to change some of those agreements and Kaegebehn wrote over to me if he was not able to talk Hancock out of it, and I was not in a position to say 'yes' or 'no.' I had to go back to the Germans and the English, in view of the 1920 agreement. It made the whole thing a very tiresome process, and what I wanted was to get some kind of an understanding or agreement on a standard form for license agreements if and when such were to be exchanged, to make it clear to Rupprecht and Hancock we could

not go on with this eternal and tedious correspondence about these matters, and I wanted to have left that clearly into their minds. Naturally at the same time I discussed the matter in general again, as I had done before, trying to enforce the principles, or rather to get them—enforce is not the right word—but to try to get Rupprecht into line again—not again, because he had never been in line.

"Q. You mean try again?. A. Yes, try again to get him in line and there was that same—in other words the same kind of evasions. If I remember right when I left I thought we had got Rupprecht and Hancock to accept this idea of trying to standardize this license agreement form if and when we agreed upon licenses, but I think the following correspondence did not bear that out—as usual with Rupprecht."

The documentary evidence shows the independent reasons that motivated the Executive Committee of du Pont in approving these agreements. In substance, they were that du Pont was enabled to maintain its European patents at the expense of the foreign companies while retaining a non-exclusive right in the foreign countries for itself, and indeed in three of the years while obtaining additional non-exclusive rights under United States patents. These last were found by the District Court to have been "of significance to DP's operations" (FF 90, R. at 302).

The reason that we think that all are agreed that these contracts are not of outstanding importance is of course that, under the troubled conditions that prevailed in Europe and Japan in the years 1937-41, and in the light of the cast-iron nature of the monopolistic position of the members of the cartel in their respective European countries and in Japan in those years, there was obviously no other

way of economically maintaining any patent right in those countries than to grant a license to the local cartel member, reserving a non-exclusive right in the grantor. The government argued at the trial that du Pont did not really expect to use this reserved right. Doubtless, this was true; but it was true not because du Pont was joining the cartel, but because it was economically impossible to consider an invasion into European markets in those years. Du Pont did all that it could do; it did reserve the right.

(*Bottom R.* 217)

Nothing is added by the next comments by the Judge:

> "Rupprecht, on the other hand, found the business of practicing one code, and writing another, rather strenuous and emotionally confusing. No wonder that communication between DP and NL became somewhat difficult; and, at times, NL's and Tinc's representatives left a conference with very different impressions of what had been agreed to from those entertained by Mr. Rupprecht."

Separating in these sentences the statements of fact from the Judge's characterizations, they amount to this: That Rupprecht did not agree with National Lead and Titan, Inc. as to what, if anything, had been agreed to, and that communication between National Lead and du Pont was "somewhat difficult." These in themselves are certainly not statements binding du Pont to National Lead as a member of the cartel and conspiracy. As a matter of fact, however, they are definitely misleading in that they suggest that there was frequent communication, albeit difficult, and that there were frequent conferences, albeit not resulting

in agreement, and that Rupprecht was practicing some code, albeit differing from his writings. The evidence supports none of these three assumptions.

There was only one important conference (the one in 1938), and that resulted in an unequivocal statement by Rupprecht that du Pont was not bound even to exchange technical information with the Europeans and would not do so.

(w) The records of the Executive Committee governing du Pont were introduced in evidence. None showed any commitment to the conspiracy. All showed a preoccupation only with licenses under patents.

(*First paragraph, R.* 218)

The Judge next turned to the point that we consider a very important one, viz., that although the record contained voluminous extracts from detailed statements placed before the governing Executive Committee of du Pont, none of it supported any theory of conspiracy. All of it related to patents and licenses under patents. The Judge handled this evidence in the following paragraph:

> "The point is made in behalf of DP that there is no evidence that its Executive Committee knew of Rupprecht's commitments. It is true that no direct evidence of such knowledge is in the record; and I need not trouble to decide whether the circumstances warrant an inference of knowledge. There is abundant evidence that Rupprecht's authority was broad enough to justify charging the corporation with his acts in its behalf."

Once again, the Judge is continuing the argument based on the *assumption* that Rupprecht had made some sort of commitments, and committed some sort of "acts". But an ar-

gument is no stronger than its factual base. And all of this is being evolved in the teeth of the Judge's own basic finding of what Rupprecht's commitments and acts really were, to-wit, that he had made no promise or agreement at all, but had merely made a statement of du Pont's existing policy in 1933 ("no more than giving expression to its then existing policy not to manufacture or sell in Germany and other T. G. territory"). The Judge's recurrence here to the word "commitments" must be put down to his original error of fact in having attributed to Rupprecht what the Judge had called "the assurance that du Pont will loyally respect the territory of T. G.", which we have seen to be derived only from a German document never shown to Rupprecht.

As to the Executive Committee of du Pont, there was ample evidence in the record that this was a governing body of du Pont, that it met every week and that all commitments of du Pont had to be specifically approved by it upon the basis of written reports made to it (see e.g. Ex. R. 961, 965, 967, 971, 986, 1048, 1060, 1072, 1083, 1114, 1118, 1201). All of the written reports to the Executive Committee relating to titanium were put into evidence, and they cover more than 100 pages of the record. The Judge was constrained, with this great amount of evidence before him, to recognize that there was

> "no direct evidence of such knowledge [by the Executive Committee] in the record".

We suggest that the Judge was not warranted in inserting the invidious word "direct" to clarify his finding of "no evidence", and was clearly not warranted in suggesting that it was even open to inquiry as to "whether the circumstances warrant an inference of knowledge". This

sort of judicial approach is proper in a case in which the parties have not put before the Court any substantial evidence of what went on at meetings. In this case, all of the records of du Pont were opened to the government investigators, and then either the government attorneys or du Pont did in fact put into the record all of the records of the Executive Committee; and they were full and detailed. In such a case, we submit, the duty of the District Judge is to make his findings on the assumption that the full record before him is a true and complete one. He has no right to speculate that there may have been some other wrong-doing. The government has the burden of proof, in equity as well as in criminal law, and our legal system does not permit a judge to suspect a fire where he admits that there is no smoke.

The fact that the Judge did indulge in such surmise and suspicion in this case is traceable not to any prejudice on his part (for he showed none whatsoever) but rather to the fact that he had been misled by the erroneous assumption that there had been evidence that Rupprecht himself had given "the assurance" about "loyally" respecting foreign territory, when in truth and in fact, not merely had the Executive Committee not been advised of such assurance, but it had never in fact been given.

(*Middle R.* 218)

The next paragraph of the opinion contains the Judge's summary conclusion:

> "My general summary of the evidence on this issue is that DP was a member of the combination—true, a special member, with a status, rights and

obligations, different from that of the other members, but a member nonetheless."

This of course adds nothing to what had gone before. The Judge leaves us in the dark as to the "status", "rights", and the "obligations". These are more than rhetorical phrases, they are harmless, for the only "rights" were rights under the contracts,—a non-exclusive license and a right (terminated by du Pont's action early in 1940) to obtain technical information,—and the Judge had just himself found that there were no "obligations", for he had found "that DP was not making a promise". And he certainly made no finding of "status". In the review of the evidence that opens this brief, the Court will have seen that du Pont *could not* have obtained any status in the combination, for it never received any of the extensive information about the conduct of the combination, notwithstanding that most of it was in fact sent to National Lead.

(*Last paragraph*, *R.* 218 *and first*, *R.* 219)

In these paragraphs the Courts dealt with our argument as to the reasonableness of du Pont's conduct which has been considered, *supra* pp. 65-84.

2. The District Judge's Heading III

The subject of the 1933 agreement is treated in the portion of the District Judge's opinion numbered "III" and commencing at R. 219. We now review this branch of the opinion in detail:

(a) The District Judge made express findings that du Pont's purposes were to obtain technical information and immunity from patent infringement. These enabled it to compete more effectively with National Lead.

(*Paragraph commencing bottom, R.* 219)

The Judge opened with a statement that when the 1933 agreement was made, the "two producers" were "competing", but between them controlled 100% of the commerce in titanium products in the United States. This is deceptive. Together, they aggregated 100% of the business simply because no one else had yet entered the field. The 100% was a mathematical fact only. They did not "together control" the industry, for, as the Judge found, they were "competing".

The Judge made express findings of "DP's purposes in entering into the agreement", as follows (FF 79, R. 292):

> "1) To avoid the expense and risks of patent litigation.
>
> "2) To avoid the research expense in trying to avoid infringement of NL valid patents.
>
> "3) To obtain access to NL's technical experience and patents in the titanium pigment field as well as the patents and the experience of NL's foreign associates."

So far, these were perfectly innocent purposes, supported by the authority of the *Cracking* case.

(b) The District Judge's adverse characterization of "pooling" "to the exclusion of outsiders" rested on a single item of evidence which he himself recognized to have been effectively disavowed by its author, and therefore to be valueless.

The Judge added the fourth finding:

> "4) To strengthen its [du Pont's] own patent position in the titanium pigment field to the exclusion of others than NL by pooling its patents with NL".

The only support that the Judge could find for this fourth finding was in a single document, to which he proceeded (in his opinion) to give disproportionate importance. The document was a letter from a Mr. Ewing, du Pont's London manager, to an officer of Imperial Chemicals in London, in which Mr. Ewing said (Ex. R. 1510):

> "We look upon this Patent Pool as a definite advance in coöperation and the strengthening of both parties' position to the exclusion of outsiders".

The Court will at once recognize the source of the language of the fourth sub-finding above quoted.

Now what are the facts about this Ewing letter? Ewing himself was put on the stand by du Pont and was submitted to cross-examination by the government (R. 744, 751). He said that he had been a subordinate official in London in 1933, had absolutely no knowledge about the National Lead deal or the policy of his company in regard to it, and had made this gratuitous statement without authority (R. 751-753). Indeed, the Judge himself accepted as correct the testimony of Ewing (R. 220):

> "whose disavowal of authority * * * I accept".
> [quoted from the opinion]

We did more at the trial. We introduced affirmative, documentary evidence from two higher officials of du Pont, which gave affirmative proof that Ewing had been in error.

(c) Moreover, that single item of evidence, authored by a du Pont subordinate, was overruled by two documents having the greater authority of two senior du Pont officials.

The first was an express instruction to Ewing, sent by his superior at Wilmington, Mr. Swint, the head of the foreign department of du Pont at its home office in the United States, and which made it plain that no pooling of patents to the exclusion of outsiders was involved (Ex. R. 1506). Swint never saw the Ewing letter quoted by the Judge, and indeed Swint's letter had been written before Ewing's letter (Ex. R. 1505-1510). Secondly, we introduced a quite contemporary memorandum of a conference in Paris at which a still higher official of du Pont, Mr. Pickard (Vice-President), had instructed the Manager of the large Italian company (Montecatini) as to du Pont's position (Ex. R. 1368-1369):

> "Mr. Donegani was told by Mr. Pickard that the du Pont Co. always looked favorably on any measure which was for the good of an industry and that the pooling of patents might probably be a good thing. As to whether or not our Company can be a party to such pooling of patents, opinion of our Legal Dept. would have to be obtained. Mr. Donegani having inquired as to whether we would consider going into a price agreement, it was explained to him that this would be absolutely illegal, according to American laws, and that, therefore, we would not be interested.
>
> "Summing-up the situation, Mr. Donegani stated that he understood that we had no fundamental objection to a talk with the other group of Titanium producers regarding the pooling of patents, but that we were first to inquire into the legal situation to find out if we might even consider such a possibility. Regarding price agreements, which would take place

between European producers, we were precluded from taking any share in them, due to American laws. He was told that the situation, as summed up by him, was correct."

For the Judge to have still persisted, in the teeth of all this, in drawing inferences from Ewing's statement, must surely be unwarranted. How is any great company, which necessarily has a large number of scattered employees, ever to defend itself in an anti-trust action if a single odd statement by a single odd employee stationed 3,000 miles away from the home office is to be preferred to the authoritative, documentary evidence provided by higher officials at the home office itself, and is even to be preferred to the oral evidence at the trial of the odd employee himself, and that even when the Judge purports to "accept" the oral evidence?

(d) It was not open to the District Judge, having accepted the disavowal of the subordinate, to treat his views as "obviously" true, in disregard of the views of his seniors.

The Judge in this case got around this dilemma by ingeniously suggesting that, although he did not attribute any authority to the Ewing letter (notwithstanding that he was at pains to quote it and to use its precise language as his finding), he was making the quotation only to state what was anyway

> "no more than the obvious".

But this destroys the validity of the quotation, and refers one back to whatever it is that the Judge had said before. Whatever that was, he was now calling it "obvious". What he had said before, however, was only that,

> "though these exchanges are not on an exclusive basis",

it was in the Judge's view clear

> "that the capacity of such a combination to dominate the market is vastly increased, that the capacity for the exclusion of outsiders from the industry is multiplied".

But this was only to draw an inference of law from what had in turn gone before it. That was a finding that the parties had agreed

> "to exchange [under non-exclusive license, of course] all future patents and patent applications and know-how".

But this in turn amounts to nothing more than the Judge saying that he thinks that it is "obvious" that the *Cracking* case in this Court ought to be overruled. In the *Cracking* case, the grant of non-exclusive licenses between the parties extended not merely to their existing conflicting patents, but to future patents and patent applications for many years in advance.

Thus, we are brought back to the point considered in Point II of our brief, and the District Judge's quotation from the Ewing letter has in the upshot added nothing to it.

(*Middle R.* 220)

This paragraph is but ~~another~~ statement of general principle which can have no greater weight than the facts upon which it is based. We now follow the Judge's opinion in so far as it deals with that inquiry:

(e) Du Pont's relations with Zirconium and Virginia Chemical were entirely independent of National Lead's, and were innocent.

(*Paragraph bottom, R.* 220)

This paragraph related only to National Lead and Virginia Chemical, not to du Pont. There is no suggestion that du Pont had anything to do with the relations, such as they were, between National Lead and Virginia Chemical; and indeed there is an express finding (FF 85, R. at 298) that:

> "There is no evidence that the action of NL and DP with respect to VC was the result of agreement between NL and DP."

(*Paragraph top, R.* 221)

The next paragraph of the opinion did deal with du Pont. We quote it:

> "DP licensed both American Zirconium and Virginia Chemical. In both instances the licenses were subject to a severe tonnage limitation on the product made under the license and to a royalty on all titanium dioxide produced, whether under the licensed patents or not. DP makes much of the fact that the evidence shows that it never refused a license. It is also true, however, that until 1944, DP did refuse licenses unencumbered by tonnage limitations."

Favorably to du Pont, this establishes both (1) that du Pont never refused a license, and (2) that it licensed both potential competitors who asked for licenses. At least, therefore, the Judge was admitting that he had been wrong in the inference that he had drawn a page earlier that it was "obvious" that both the purpose and effect of du Pont's 1933 agreement was to operate "to the exclusion of outsiders".

But with great respect to the learned Judge, we think that the emphasis that he here gave to the so-called tonnage limitations on the products made under the du Pont licenses was wholly disproportionate. The whole position as to the tonnage limitations has been set out *supra*, pp. 102-106.

If the Judge were right in his viewpoint about there being a "pooling" between National Lead and du Pont "to the exclusion of outsiders", we would expect that du Pont would at least have favored Zirconium, as Zirconium became a partial subsidiary of National Lead (which acquired 20% of its stock) and adhered expressly to the conditions of the international cartel, including even Article XIV of the Contract of 1920. If du Pont was strict in its concessions to Zirconium, this could hardly be evidence of conspiracy with Zirconium's parent National Lead.

(f) The cross-license agreement conferred no power of concerted action and imposed no restraint.

(*Paragraph middle, R.* 221)

The next paragraph of the opinion dealt with the so-called "proliferation of patents". This, as it developed in the Judge's opinion, was but another argument as to why the Judge thought the *Cracking* case had been wrongly decided. He said that the non-exclusive cross-licensing in the agreement between du Pont and National Lead had the result that:

> "The chief spur to private resistance to the grant of patent monopolies has been withdrawn from the parties who, ordinarily, would be chiefly concerned".

He next pointed out that:

> "not a single one of the hundreds of patents here involved has ever been litigated".

But this is a fact wholly without significance, for it follows automatically from any grant of a non-exclusive license under patents that the grantee will not go to the onerous expense of litigating against a patent under which he has received a license. Yet in fact here each party was assiduous in obtaining its own patents on its own inventions,—a point which the learned Judge might have here noted in their favor. The point about non-litigation was the same point that had impressed the three-judge District Court in Chicago in the *Cracking* case, but whose decision was expressly overruled by this Court in the following words of Mr. Justice Brandeis, 283 U. S. at 171:

> "Where there are legitimately conflicting claims or threatened interferences, a settlement by agreement, rather than litigation, is not precluded by the Act."

It remains the law today that, at least in the absence of a showing by the government that the patents are invalid, or of a showing by the government by evidence *aliunde* that the parties were seeking to dominate and control the industry by other means and for other purposes, a mere settlement of patent disputes by exchange of non-exclusive licenses is not illegal. It really was not open to the learned District Judge thus to seek to overrule the *Cracking* case.

(*Bottom R.* 221)

The next paragraph of the opinion returns us to the facts of this case:

> The exchange of know-how between NL and DP was abandoned in 1940 when, as DP says, the

industry matured. The exchange of patents and patent applications continues".

We pause here merely to mention that the Judge must have meant:

> "The exchange of non-exclusive licenses under patents and patent applications continues".

The paragraph continued:

> "The tonnage limitations in the licenses of American Zirconium and Virginia Chemical was eliminated in 1944. The power of concerted action is still there".

The last sentence is entirely unwarranted, as there is no finding of fact upon which to base it, except only the finding that the parties were exchanging non-exclusive licenses. The argument that the Judge proceeded to erect upon it, and that is found in the next paragraph of the opinion (top R. 222), has already been considered at the opening of this section of our brief.

On this branch of the case, if the judgment below be reversed, the situation will simply be that du Pont and National Lead will be exchanging royalty-free, non-exclusive licenses under the numerous patents owned by each of them, subject, however, to the right of either of them to terminate upon giving three years' notice to the other. The licenses by du Pont to the successors of both Virginia Chemical (American Cyanamid) and American Zirconium (Glidden) will continue without tonnage limitation. We do not know what the status is of any license granted by National Lead.

APPENDIX C

Memorandum Regarding the Protection Afforded in Certain Foreign Countries to Process Patent Claims in Connection with Importation into such Countries of Products Made by a Process Patented in such Countries.

The purpose of this memorandum is to set forth briefly the statutory and case law of certain principal foreign countries relating to the question whether the process claims of patents issued in such foreign countries may be utilized by the owner of the patent to bar imports into the country of products made outside the country in accordance with the patented process. Du Pont through acquisition in 1931 of Commercial Pigments secured the U. S. rights only to certain basic patents dominating the so-called Blumenfeld process used by both Commercial Pigments and du Pont for manufacturing titanium pigments. Foreign patents equivalent to these U. S. Blumenfeld patents existed in the principal industrial countries of the world. In addition foreign equivalents to the National Lead and Titan group of patents issued in similar countries.

The countries under consideration fall into three distinct groups as follows:

Group 1—those whose statutes explicitly extend the protection afforded a patented process to the product of the process, i.e., Czechoslovakia, Germany, Japan and Norway;

Group 2—those whose statutes implicitly extend such protection, i.e., Canada and Great Britain; and

Group 3—those whose statutes are silent on the matter, i.e., France and Italy.

Group 1

CZECHOSLOVAKIA. The Czechoslovakian law of May 27, 1919, extended the Austrian law of January 11, 1897, to the territory of Czechoslovakia, and Section 8 of that Austrian law reads:

"The patent has the effect that the patentee shall exclusively be entitled to commercially produce, bring into the market, expose for sale, or use the subject of the invention.

"If the patent be granted for a process, the effect shall extend also to the articles made directly by this process".*

GERMANY. Paragraph 6 of the German law of May 5, 1936 (which corresponds in substance with Paragraph 4 of the German law of April 7, 1891), reads:

"The effect of a patent is that the patentee alone is entitled to produce the subject matter of the invention industrially, to bring it on the market, to keep it from sale or to use it. If the patent is granted for a process, the effect of the patent also extends to the products made directly by the process."

JAPAN. Article 35 of the Japanese law of April 29, 1921, reads in part:

"As regards a patent of invention of an article, the patentee has the exclusive right to manufacture, use, sell and/or circulate the article, and in the case of a patent of invention of a process, to use the process and to use, sell or circulate articles manufactured by such process.

"A new identical article is presumed to have been manufactured by the same process."

---

*All translated quotations of patent laws in the text of this memorandum are taken from "Patent Laws of the World", Edition of 1911 and Supplements thereto published by the Chartered Institute of Patent Agents, London. This publication is available to the public in the Patent Office Library at Richmond, Va., and presumably elsewhere. The quotations from the Canadian and British Laws are taken from officially published copies of those laws.

NORWAY. Section 5 of the law of June 17, 1910, reads:

"A patent has the effect that no person without the consent of the patentee may use the patent for the purpose of gain by making, importing, offering for sale, trading in, or using the object of the invention (see Section 36).

"If a patent has been granted for a method (see Section 1b), the effect of the patent extends also to the products made thereby."

Section 36 reads:

"A person is guilty of infringement of a patent who, in contravention of this law makes use of the invention in any business or work (see Section 5), after becoming aware that an application for a patent had been lodged, or after the publication mentioned in Section 27 has taken place.

"Prosecution for infringement cannot be commenced before a patent has been granted for the invention."

And Section 1 reads:

"Under this law new inventions which are capable of industrial applications are protected by patent.

"But the following are excepted:—

"(a) Inventions the use of which would be contrary to law, morality or public order.

"(b) Inventions the object of which is an article of food, consumption, or medicine, or a chemical compound, but a patent may be granted for special means of producing the article.

"In order to obtain a patent for an invention, an application for a patent in conformity with the provisions of this law must be lodged at the office for the protection of industrial rights."

Group 2

Of the countries under consideration, Canada and Great Britain fall into this group. They can conveniently be considered together, because the relevant sections of their respective statutes are identical, and the court decisions thereunder have given them the same construction.

Section 40(2) of the Canadian Act of 1935 (which reproduces in substance part of Section 17 of the Act of 1923) and Section 38A(2) of the British Act of 1907 each read:

> "In an action for infringement of a patent where the invention relates to the production of a new substance, any substance of the same chemical composition and constitution shall, in the absence of proof to the contrary, be deemed to have been produced by the patented process."

As the decisions make clear, these sections of the Canadian and British Acts are based upon the premise that a patent for a process protects the product of that process.

Turning first to the British cases, all of which constitute precedents in Canada as well as in Great Britain, in *Saccharin Corporation Ltd.* v. *Mack & Co.* (R. P. C.* vol. 23, p. 25), the plaintiffs sued for infringement of seven patents. It was held that, to constitute infringement, the article complained of must have been made by some process covered by the plaintiff's patents.

In *Saccharin Corporation Ltd.* v. *National Saccharin Co., Ltd.* (R. P. C. vol. 26, p. 654), the plaintiffs sued for infringement of three patents relating to processes used in the manufacture of saccharin. The importation of saccharin from abroad was alleged to constitute the infringement. The defendants alleged that the imported material was made by the processes of expired patents. It was held

*Ruling Patent Cases.

that the plaintiffs were entitled to an interlocutory injunction.*

In *United Horse Nail Co.* v. *Stewart* (R. P. C. vol. 2, p. 122), the pursuers sued for infringement of four patents relating to machines for use in the manufacture of animal shoe-nails. The sale of nails allegedly made by infringing machines was claimed to constitute the infringement. It was held that two of the patents were invalid but that the other two were infringed. The case was carried to the Lord Ordinary, the Court of Session and the House of Lords, and the original decision as to infringement sustained in each instance (R. P. C. vol. 5, p. 260).

Turning to the Canadian cases, in *Toronto Auer Light Co., Ltd. et al.* v. *Collins* (Ottawa Reports, vol. XXXI, p. 18), and *The Auer Incandescent Light Manufacturing Co., Ltd.* v. *O'Brien* (Exchequer Court Reports vol. 5, p. 243), it was held that the importation into Canada of incandescent gas mantles made abroad infringed a Canadian patent for the method of making such mantles. In the former case, the Ontario High Court of Justice said:

> "A patent granting the exclusive right of making, constructing, using and selling to others to be used, an invention, as described in the specifications setting forth and claiming the method of manufacture, protects not only the process but the thing produced by that process, and an action will lie against any person purchasing and using articles made in derogation of the patent, no matter where they come from."

In the latter case, the Court said:

> "It is not open to anyone in Canada to report for use or sale appliances made in a foreign country in

*See also *The Saccharin Corporation Ltd.* v. *Haines, Ward and Co.* (R. P. C. vol. 15, p. 344); *Saccharin Corporation Ltd.* v. *Dawson* (R. P. C. vol. 19, p. 169).

accordance with the process protected by the plaintiff's patent."

Fisher and Smart, in "Canadian Patent Law & Practice" 1914—Toronto, Canada Law Book Co., Ltd.—Philadelphia—Cromarty Law Book Co. (pp. 184, 185) state the law, as follows:

> "A process patent protects not only the process, but the thing produced by the process, and an action will therefore lie against any person purchasing and using or selling articles made in derogation of the patent, no matter whether they are made in Canada or elsewhere. . . .
>
> "The onus is on the patentee of proving that the articles said to infringe were in fact made by the patented process. Where, however, the articles were made in another country, a prima facie case made by the patentee will throw the onus on the defendant to show that the articles were not made according to the process. Where it is shown that the process is the only known method of making the product, such a prima facie case is made out. . . ."

See also Fox, "Canadian Patent Law & Praetice", 1937—The Casewell Co., Ltd., Toronto, pp. 325, 326, who states:

> "Infringement is committed by the importation of infringing articles made abroad. Use in the country of articles made abroad on a patented machine or by a patented process constitutes infringement. If there is some act committed in Canada by the defendant in derogation of the patentee's rights there is infringement. Thus, where a foreign firm were requested to supply goods which constituted an infringement of a patent to England and they sent an invoice stating that the goods were sent to a forwarding agent also abroad to be at the

disposal of the persons ordering, it was held that prima facie this was only a colourable evasion of delivery in England and leave was given to serve them. And where infringing articles made abroad were exhibited in England but without sale or intention of sale, it was held nevertheless to be such a user of the invention as to amount to an infringement. A contract for sale and for delivery abroad of a patented article made abroad and delivery accordingly does not constitute infringement."

Group 3

FRANCE. Article 41 of the French law of July 5, 1844, reads:

> "Those who have knowingly received, sold, or exposed for sale, or introduced into French Territory one or more infringing articles, shall be punished with the same penalties as infringers."

French patents contain no claims, and a patentee is permitted, on the institution of suit, to make any claim within the ambit of his disclosure. Consequently, on the importation of a product the production of which is described in a French patent, the patentee would naturally draft a claim to the product itself, and such claim, if valid, would undoubtedly be sustained by the Courts. In "Chemistry and Continental Patent Law" Dr. E. Muller, Verlag Chemie, Berlin, 1932, discussing French law, states:

> "In accordance with court decisions, a process patent protects also the product of such process, even where the product is not mentioned in the résumé of the patent. For example, where a patent was directed to a process of producing aniline blue and aniline violet, the court held that these products came under the scope of protection of the process patent."

In the "Handbook of (French) Patents", 1931, p. 66, Section 126, Massius states:

"If a means or process patent covers only the means or steps claimed in such patent, such means or steps must be understood in their broadest meaning.

"The process patent, in addition to the means explicitly claimed therein, also covers means which may be derived, either directly or indirectly, from the process used by the patentee.

"It is understood that such means are integral parts of the discovery of the patented process. If the patentee did not indicate them, it is because their number was too large for him to subject himself to such enumeration, but the protection afforded by the process, nevertheless extends to them."

The same author, in the same handbook, page 60, Section 107, also states:

"The distinction between 'product' and 'means' is not very clear.

"A product may always be considered to be a means; if it is viewed from the point of view of the use to which it is put, it is a means; if it is viewed as the article obtained, it is a product."

Italy. The present law in Italy is the Royal Decree of June 29, 1939, which became effective on May 1, 1940. Prior to that time, the governing law was the law of January 31, 1864, Articles 1 and 2 of which read:

"1. The author of a new invention or discovery in the industry has the exclusive right of working the same and of deriving profit therefrom during the time, within the limits, and under the conditions prescribed by the present Decree.

"This exclusive right constitutes an industrial privilege.

"2. An invention or discovery is said to belong to industry whenever the immediate object is:—

1) An industrial product or result

2) An instrument, machine, tool, engine, or any mechanical arrangement

3) A process or method of industrial production

4) A motor, or the industrial application of a force already known

5) Finally, the technical application of a scientific principle, provided it give immediate industrial results.

"In this last case the privilege is limited solely to those results expressly pointed out by the inventor."

In "Chemistry and Continental Patent Law", referred to above, Dr. E. Muller, in discussing Italian patents, states that a process patent affords automatic protection to the product produced thereby, even if the latter is not specifically claimed.

It will be observed that France and Italy are the two countries in which the doctrine is not plain on the face of the statute and in which presumably the doctrine of product protection for process claims would be more arguable in its application to any particular case. This fits in with Dr. Blumenfeld's testimony (R. 805).

However, the principal industrial countries to which du Pont would presumably have exported (if it had wished to export at all), e.g. Great Britain, Canada, Germany and Japan, are all countries in which on the face of the statutes themselves there is a restraint, explicit or implicit, upon importation of a product manufactured by a process patented in that country.

In all countries covered by this memorandum, as well as in others, the Blumenfeld and Titan groups had extensively patented their respective titanium pigment inventions.

FILE COPY

Supreme Court of the United States

October Term, 1946

No. 91

E. I. Du PONT de NEMOURS AND COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

Appeal from the District Court of the United States for the Southern District of New York

APPELLANT'S REPLY BRIEF

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February, 1947.

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CASES CITED

APPELLANT'S REPLY BRIEF

I. The Merits

The government in its brief as appellee states the question as being "whether the finding of the District Court that du Pont was a party to the unlawful combination is supported by the evidence" (2).[1] We do not accept this. *The question is whether the findings of the District Court are as a matter of law sufficient to sustain the conclusion that du Pont became a party to the unlawful conspiracy and combination.* The legal sufficiency of a specific finding of the District Court is thus placed directly in issue. That finding reads: "DP, through Rupprecht and Krebs, by these assurances and Exhibit E, joined the conspiracy found herein to exist between NL and its foreign associates" (R. 289). This was the only finding of fact on which the District Court based its decision that du Pont did become a member of the combination. Du Pont contends that neither the assurances as found nor Exhibit E (the non-exclusive cross-license agreement, R. 69) is sufficient as a matter of law to make du Pont a member of the combination.

The government cannot avoid this issue. It did not assign as error any finding of the District Court or any refusal of the District Court to find (R. 330-331); indeed at page 8 of its brief in No. 89 the government specifically states that the findings of fact "are not challenged by the government". The government, however, undertakes once again in its brief as appellee to present many carefully culled bits of evidence in support of the broad assertion

[1]Reference numbers in parentheses are to the pages of the proof of the government brief as appellee received by us January 21, 1947.

that the evidence taken as a whole establishes du Pont's participation in an unlawful conspiracy and combination. The record references are often to odd sentences in occasional documents and are presented apart from their context. Very few of them can be attributed to du Pont at all, since they are admissions of National Lead or other alleged conspirators and not independent proof *aliunde* as to du Pont.

Whatever their probative value, all of the government record references and points were argued at length before the District Court. Indeed, the government proposed many findings based upon these very points which the District Court as the primary trier of the facts, after carefully reviewing all the evidence, denied. (See, for example, pages 52-54 of du Pont's main brief in No. 91.) This denial was based upon substantial evidence which the government in no place refers to.

The sole issue presented under the appeal papers which the government must meet, in view of Rules 9 and 13 of this Court, is whether the District Court's conclusion is supported by his specific findings.

(A) The "Assurances".

The suggestion (60) that du Pont has concocted an ingenious technical argument designed to take unfair advantage of the District Court's findings is amazing, to say the least. Du Pont's position in this Court on the issue under discussion here has not varied in the slightest from the position it has taken in this litigation from the outset and long before the findings were settled. It argued vigorously and at length before the District Court that an agreement must be shown, and that what du Pont did was reasonable

and beneficial to trade and to competition. The District Court felt otherwise and carefully preserved this issue of law for review by this Court.

The District Court chose the word "assurance", having well in mind its inability to find any territorial agreement or commitment by du Pont. It refused to find an oral agreement or an agreement of any kind by implication. The government seeks to twist this by now saying that the District Court used the word "assurance" in the sense of a guaranty, pledge or commitment which was not legally enforceable (62). This is just not so.

The District Court specifically stated[2] that it used the word "assurance" to mean a statement by du Pont from which it could withdraw at any time and as to which it was not even morally bound by considerations of business practice or ethics. Indeed, this was plainly reflected in Finding 73 (R. at 287-288) in which the District Court expressly said that "DP was not making a promise * * * it was doing no more than giving expression to its then existing policy * * *". The constant effort of the government to avoid the clearcut legal issue presented on this appeal can only reflect a recognition that the position of du Pont is basically sound.

The government cases throw no further light on the issue. We need not repeat here our statement as to our understanding of the meaning and effect of the *Interstate Circuit* and other recent decisions of this Court on the question of conspiracy and combination. (See pp. 60 to 64 of du Pont's main brief in No. 91.) We feel that these

[2]This statement was made at informal conference on the findings, but we are confident our assertion will not be challenged by government counsel who participated in the trial.

cases are not properly interpreted by the government. The numerous lower court decisions cited principally at pages 68-69 of the government brief stand only for the proposition that a conspiracy may be established by circumstantial evidence, and that the conduct of the parties may be analyzed for the purpose of determining whether or not an unlawful agreement, association or partnership in crime exists; but these cases in no way sustain the government's apparent view that no "meeting of the minds" is necessary. Indeed most of the cases cited hold specifically to the contrary.

The recent decision of this Court in *Direct Sales Co.* v. *United States,* 319 U. S. 703, makes clear the standards which apply. The Court pointed out (p. 713) that "more than suspicion, more than knowledge, acquiescence, carelessness, indifference [or] lack of concern" is necessary. The Court must find not alone that du Pont had clear and unequivocal knowledge and that it acquiesced, but also that it joined "both mind and hand" with the other alleged conspirators for the purpose of accomplishing the objects of the conspiracy (319 U. S. at 713). A definite difference between "lawful cooperation and criminal association" is recognized (319 U. S. at 713), particularly where the transactions involve normal commercial relationships.

The cases have emphasized again and again that the government must show that the parties worked together understandingly with a single design for the accomplishment of a common unlawful purpose. *Braverman* v. *United States,* 317 U. S. 49, 53; *United States* v. *Falcone,* 311 U. S. 205, 210; *Gebardi* v. *United States,* 287 U. S. 112, 121; *Wong Tai* v. *United States,* 273 U. S. 77, 81; *Frohwerk* v. *United States,* 249 U. S. 204, 209; *Williamson* v. *United States,* 207 U. S. 425, 447; *Bannon and*

Mulkey v. *United States,* 156 U. S. 464, 468; *Dealy* v. *United States,* 152 U. S. 539, 547; *Pettibone* v. *United States,* 148 U. S. 197, 202; *United States* v. *Britton,* 108 U. S. 199, 204; *United States* v. *Hirsch,* 100 U. S. 33, 34.

The findings will not support a contention that du Pont knowingly co-operated to further the objects of the cartel, that there was "informed and interested co-operation, stimulation and instigation", or that there was any "stake in the venture" or joining of both "mind and hand" in the enterprise (319 U. S. at 713). Du Pont followed a course of conduct at all times independent; and its actions did not prevent competition with National Lead. They created it. The absence of a finding of unlawful agreement express or implied is fatal to the government's case.

(B) The Reasonableness of du Pont's Conduct.

In our main brief in No. 91 at pages 65 to 84 we presented arguments and authority in support of the proposition that what du Pont said or did must be measured by the test of reasonableness, assuming *arguendo* that agreement is not necessary to establish violation of the Sherman Act. It was there demonstrated that du Pont's conduct was in all respects wholly reasonable and proper under the circumstances. It is only necessary here to observe that the government has defaulted on this point, since its brief wholly fails to discuss it.

(C) The Non-Exclusive Cross-Licensing Agreement.

Du Pont has not, as the government states (71), conceded that the District Court found the cross-licensing agreement between du Pont and National Lead unlawful. The findings speak for themselves and there is no such

finding. The District Court in its opinion appeared to criticize the agreement, however, and we therefore submitted, as our main brief in No. 91 explains under Point II at p. 84, an argument that the cross-licensing agreement was lawful under the decision in the *Cracking* case, *Standard Oil Company (Indiana)* v. *United States*, 283 U. S. 163.

The government in its brief now for the first time states that it considers the cross-licensing agreement illegal. The government did not ask for a finding below to this effect (R. 78-118) nor did it charge that the agreement was illegal in its complaint (R. 1-40) or opening argument. Its present position that the agreement is illegal seems wholly inconsistent with its past position and assignments of error (R. 330-331).

The government invokes the *Cracking* case as authority for its contention that the agreement is illegal. In its treatment of the *Cracking* case, however, the government falls into its recurrent error of failing to distinguish between an agreement between two parties at arm's length and a joint program undertaken by both together. In this case, the license agreement related only to the two parties, du Pont and National Lead, and was only a non-exclusive exchange between them of patent licenses and technical information. Such an agreement, as the opinion makes clear, raises no question under the anti-trust laws. This was the subject-matter of Mr. Justice Brandeis's opinion down to the bottom of p. 170, concluding:

> "The government concedes that it is not illegal for the primary defendants to cross-license each other and the respective licensees; and that adequate consideration can legally be demanded for such grants."[3]

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[3]The "primary defendants" were the Standard Oil Companies of New Jersey and Indiana, The Texas Company and Gasoline Products Company.

Up to this point in the opinion there was no consideration whatsoever of the size of the defendants or the nature of the industry. None was necessary, for the rule to permit cross-licensing is absolute, as no restraint of trade can be involved in a non-exclusive unrestricted cross-license, the only effect of which can be to liberate trade, particularly where (as here) there were mutually blocking patents.

But in the *Cracking* case the primary defendants went further. They not merely cross-licensed each other; they agreed on a joint licensing program, under which they fixed minimum royalties that each should charge for the patents of the other, pooled the royalties, and divided them in agreed proportions. It was to determine whether these provisions for joint action had the actual effect of restraint of trade that the parts of the opinion relating to domination, from which the government takes its quotations, were directed. 283 U. S. at 172-179. The subject is introduced with the sentence beginning in the last line on p. 170 and runs throughout the balance of the opinion. The sentence reads:

> "But it [the government] contends that the insertion of certain additional provisions in these agreements renders them illegal".

The additional provisions all relate to joint action by the patentees in granting sub-licenses, including joint fixing of royalties and pooling of royalties. No such provisions existed between du Pont and National Lead. The question of domination is therefore wholly extraneous to this case.

II. Technical Information.

This point is covered fully in Part Two of du Pont's main brief in No. 91, and we will therefore only answer succinctly matters raised for the first time in the government's brief.